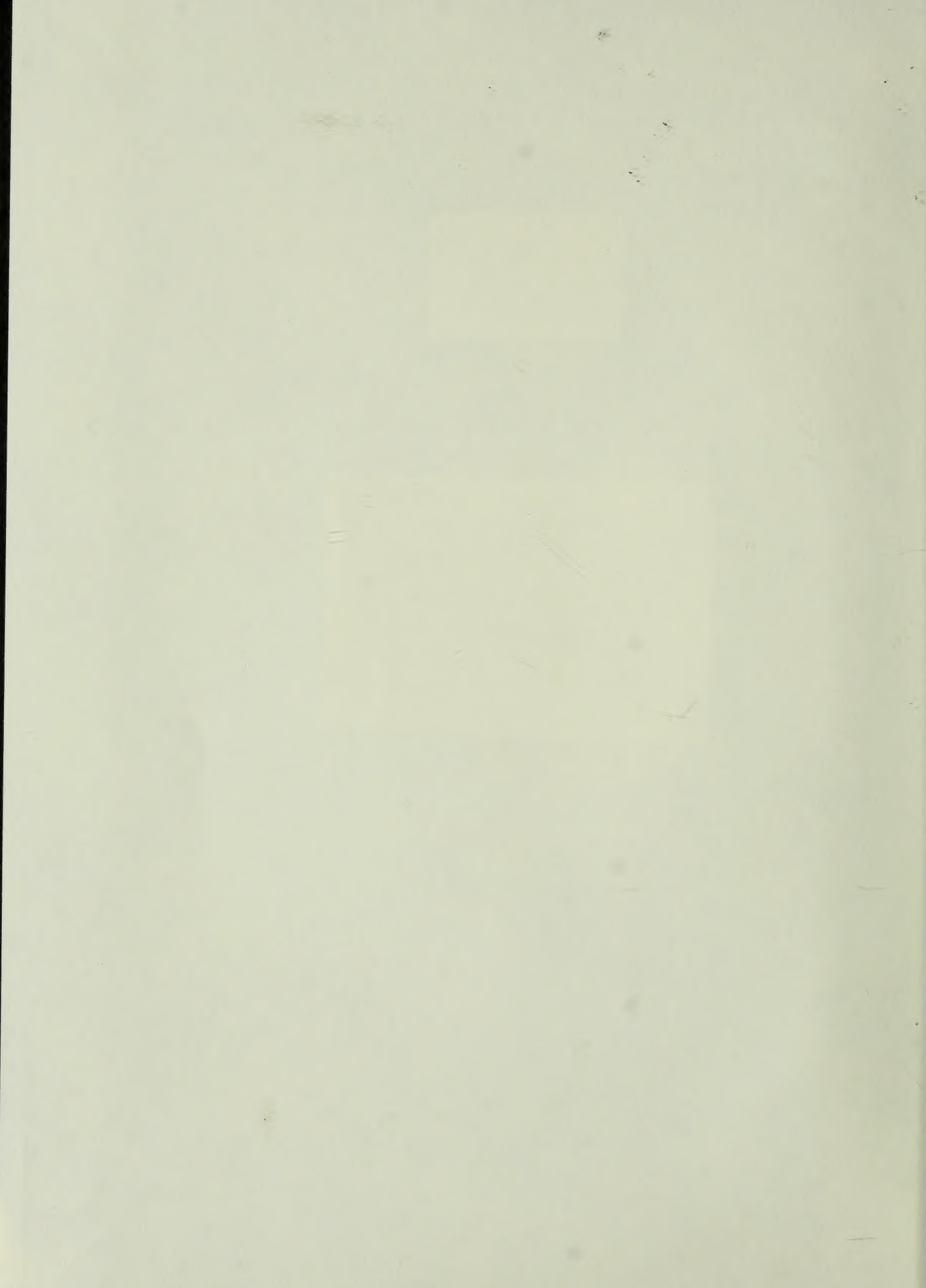


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April 14



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Form 1040X Department of the Treasury—Internal Revenue Service
Amended U.S. Individual Income Tax Return
OMB No. 1545-0047

This return is for calendar year 2002, or fiscal year ended 12/31/2002

See separate instructions.

Print your name and social security number in the top left corner.

Line 1: Adjusted gross income (see page 3) 10,000

Line 2: Exemptions (see page 3) 3

Line 3: Taxable income (see page 3) 7,000

Line 4: Federal income tax (see page 3) 1,400

Line 5: State income tax (see page 3) 0

Line 6: Total tax (see page 3) 1,400

Line 7: Refund (see page 3) 0

Line 8: Total refund (see page 3) 0

Line 9: Total tax (see page 3) 1,400

Line 10: Total refund (see page 3) 0

Line 11: Total tax (see page 3) 1,400

Line 12: Total refund (see page 3) 0

Line 13: Total tax (see page 3) 1,400

Line 14: Total refund (see page 3) 0

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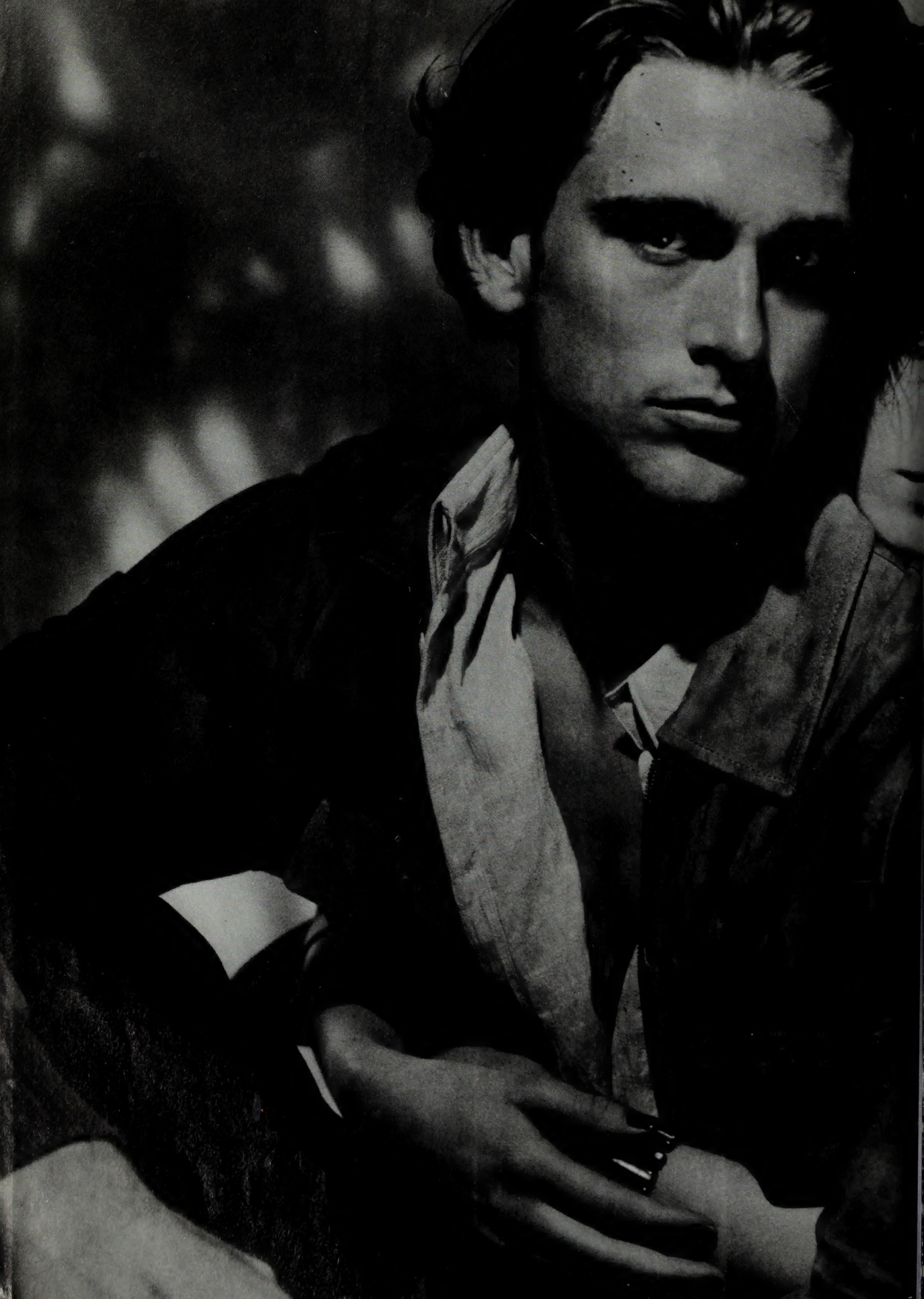
Ralph Lauren

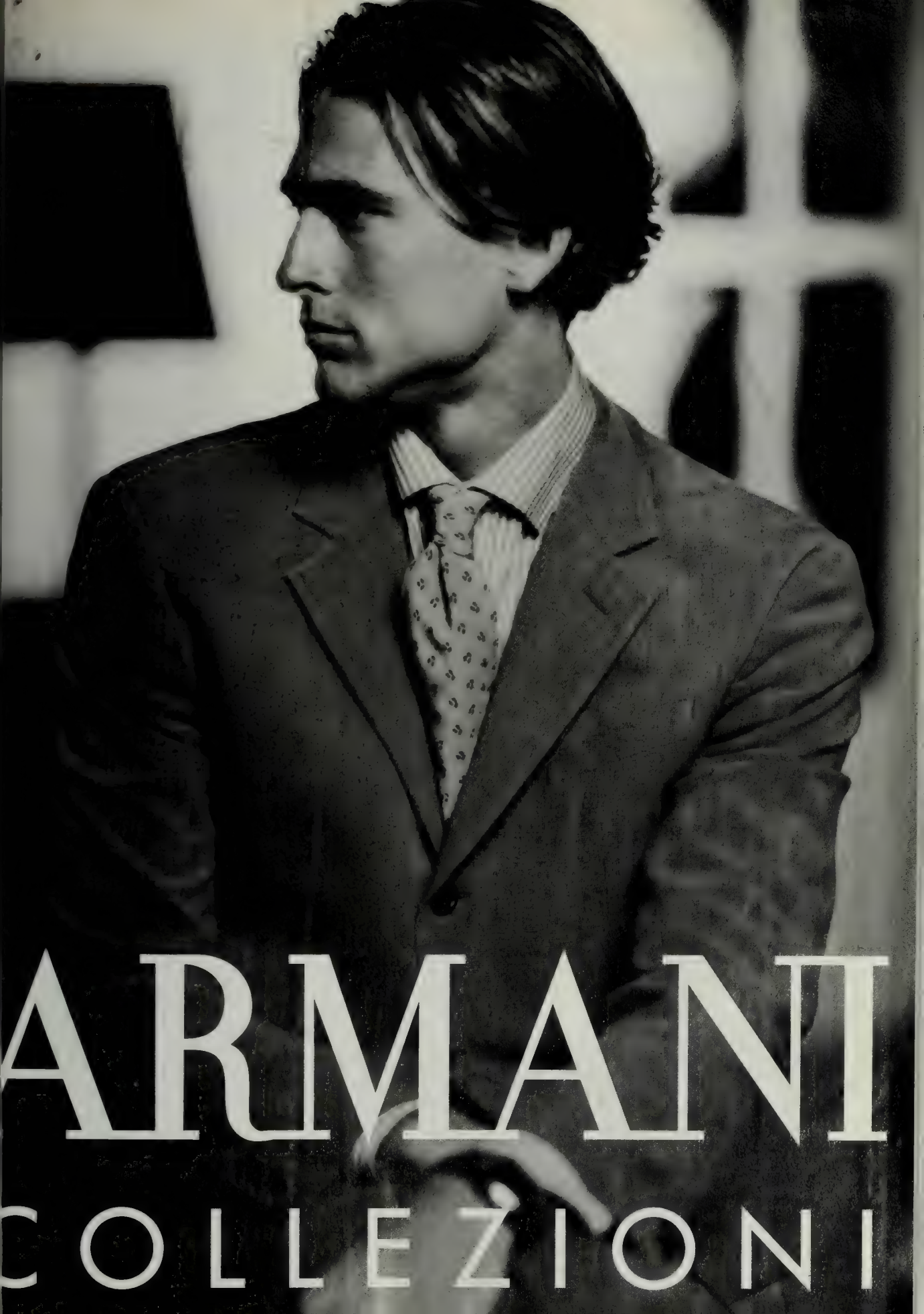
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...of moving 13 million pack-
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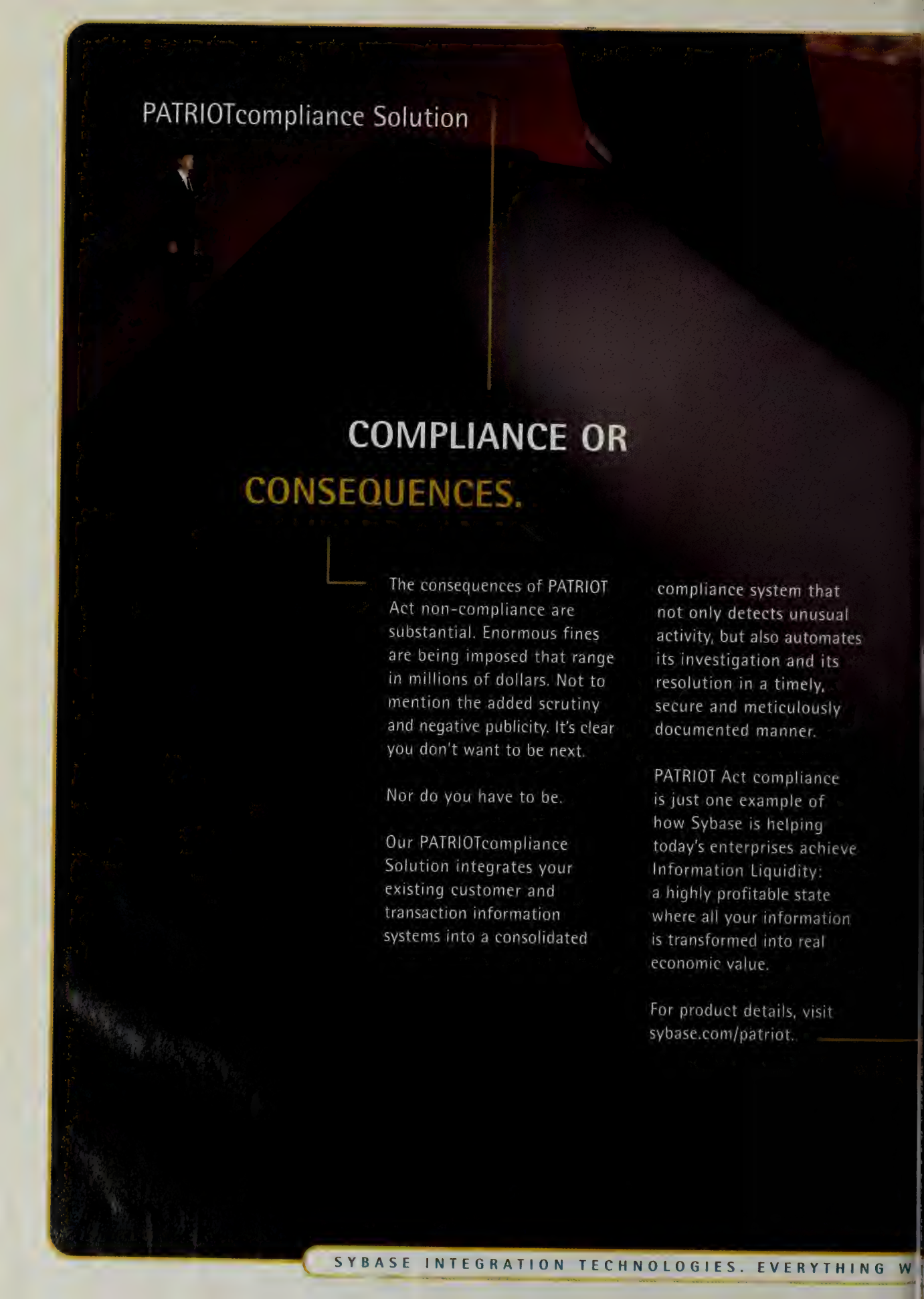
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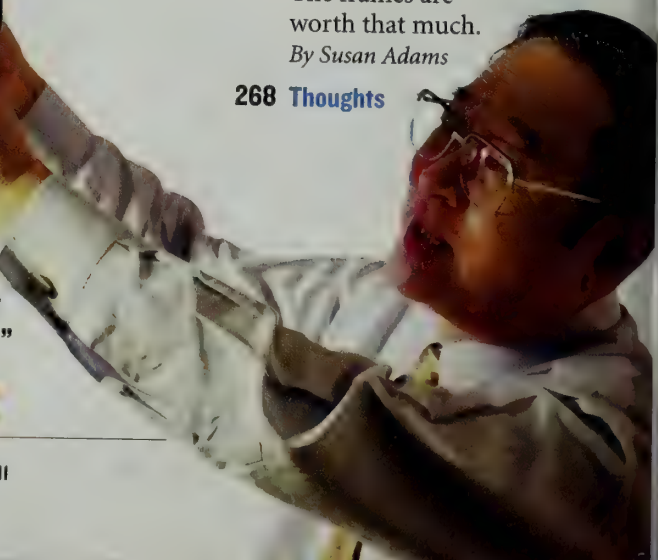
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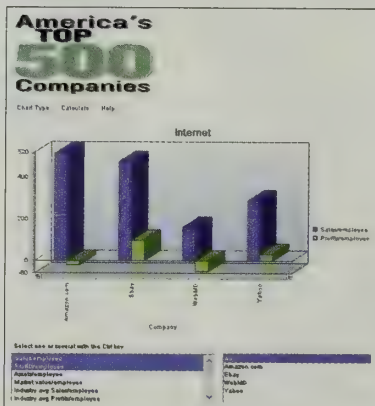
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Mark Lewis

April's guests in our online chat series include David Callahan discussing *Kindred Spirits*, his book about the Harvard Business School's class of 1949 (Apr. 3); Dallas Salisbury, chief executive of the Employee Benefit Research Institute (Apr. 9); and Gordon Bethune, chief executive of Continental Airlines (Apr. 24). If you own or run a company, apply today to join our online community of chief executives so you can talk to these guests and take full advantage of CEO Network membership.



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The "Ooof" Company

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SIDE LINES

Please Dump on Me

One of the more curious features of the federal criminal code is the Anti-Dumping Act of 1916, punishing people for selling imported goods too cheaply. While no one gets sent to the penitentiary these days for underpricing, the spirit of the law is very much alive in the nation's capital, where a whole regulatory apparatus is built around the theory that the U.S. economy is damaged if foreigners give us bargains.

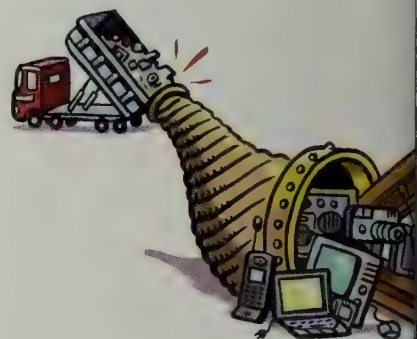
The International Trade Commission investigates cases of suspected lowballing and punishes offenders with antidumping penalties—tariffs designed to force prices up. If a foreign government is caught subsidizing its exports, the ITC takes

away the bargain element by slapping on a countervailing duty. At the moment the ITC is busy protecting us from cheap Chinese coat hangers, as Ira Carnahan relates on page 110.

It's easy to see why a hanger manufacturer in Alabama is damaged by competition. But how is it possible that the economy as a whole could be damaged? We send a boatload of soybeans to Shanghai, and the Chinese send us two boatloads of hangers. "Please take one back!" says the ITC. "You're far too generous." To which the Chinese say, "Take two! We insist!" It's like arguing over a dinner check. At a certain point it makes sense to stop being so magnanimous. Let the other guy play Santa Claus if he wants to.

It is alleged that Canada subsidizes lumber for export. The wickedness consists of underpricing trees cut from provincial forests, so the Canadian lumbermen have a leg up competing with U.S. lumbermen. Under international law cheap trees are an "unfair" trade practice, and a countervailing duty may be imposed. But what difference does it make whether the wood is cheap because trees grow fast in British Columbia, or because the loggers are in business for their health, or because Canadian citizens want to tax themselves just so they can make a gift to America? Take the bargain. Homes would become more affordable.

We could fire everybody at the ITC, but that would be bad for unemployment in Washington. Instead, let's redirect the agency. Send it out on trade missions designed to increase dumping in the U.S. market. Have the Chinese send us three boatloads of hangers, solicit cheap lumber, beg the Europeans to give us heavily subsidized farm products. Our living standards would go up.



William Baldwin

EDITOR

Heller Ehrman Predicament

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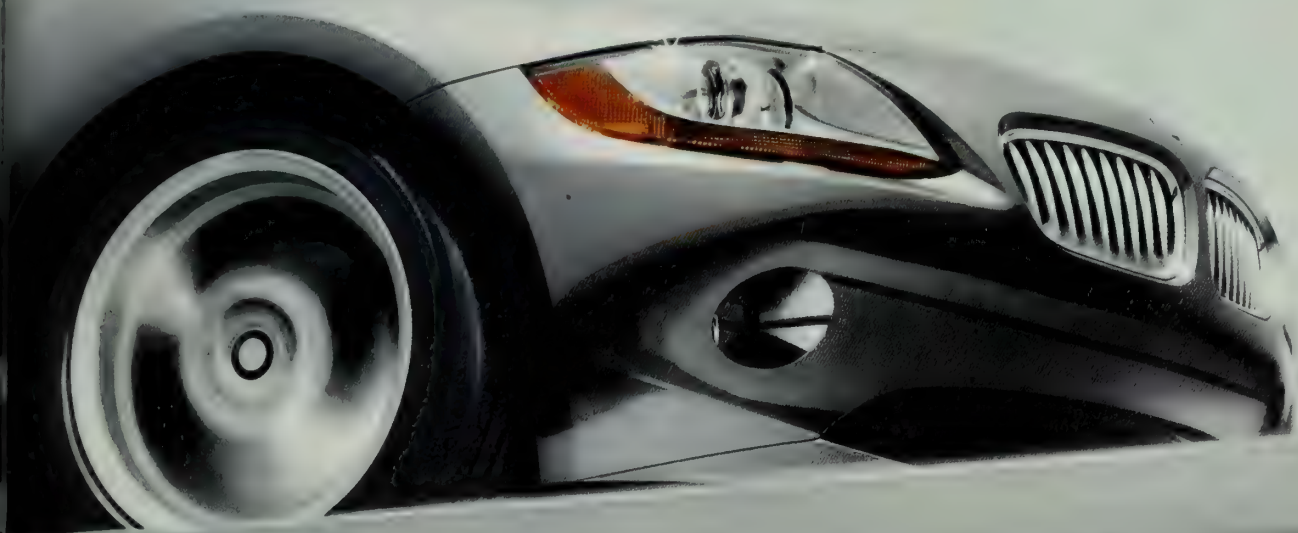
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READERS SAY

Motivational Speakers

I am writing in response to "The Guru in the Vegetable Bin" (Mar. 3, p. 56) about Albertsons. Outside motivational speakers like Ed F. Foreman can sharpen well-run companies that have good leaders and a comprehensive strategy. Motivational speakers and trainers cannot fix poor strategy and weak leadership. In short, if you mix ice cream and manure, you still have manure.

F. PAUL KARRES
Las Vegas, Nev.



Perfectly Proper

I represent Forstmann Little in the litigation referenced in "Teddy's Folly" (Mar. 31, p. 56). Forstmann Little has a 25-year track record of prudently and successfully creating value and significant returns for its limited partners. At the time that Forstmann Little made investments in XO and McLeod, they believed the investments would generate exceptional returns for the limited partners as prior investments had. The investments were entirely proper. The treasurer of the state of Connecticut is a sophisticated institutional investor who was fully informed about the nature and scope of each of these investments, funded the investments without communicating any questions or concerns, and received millions of dollars in investment returns over the course of the investments. Forstmann Little is disappointed that the investments in XO did not perform as anticipated. The firm continues to work to increase investment returns to its limited partners and expects positive returns from other investments from the funds in which the treasurer chose to participate, including both the investment in McLeod and the investment in Citadel Communications. We believe the treasurer's lawsuit is without merit and we will defend it vigorously.

FRED H. BARTLIT, JR.
Senior Partner, Bartlit, Beck, Herman, Palenchar & Scott
Chicago, Ill.

Insurance 101

"Make Car Insurance Fairer" (Mar. 17, p. 154) by Ian Ayres and Barry Nalebuff is flawed. Which person would you trust the most with driving your prized Corvette across the country? 1) Your 16-year-old sister who got her suspended driver's license back last week, 2) Your drug-addict brother-in-law who was recently jailed for dealing, or 3) Your 60-year-old father with no tickets or accidents in 44 years of driving? Most reasonable people would choose their father. Yet Ayres and Nalebuff propose charging each person the same for insurance based solely upon miles driven. Additionally, they would charge less for high-risk motorcycles than for lower-risk sedans simply because motorcycles use less gas.

DICK WADLEY
Olympia, Wash.

Ethical Behavior

I am disappointed that "Healing Thyself" (Mar. 17, p. 64) appears to ridicule an effort to promote high ethical standards and effective legal compliance. Ethics programs like that at HCA have been shown in any number of other major companies to have enormous favorable impacts. From the Ethics Resource Center's (ERC) 2000 National Business Ethics Survey we know that effective ethics programs make a significant positive difference for employees.

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You admit that the HCA program is seemingly effective and that the company has thrived, bearing out the view of the ERC that "good ethics is good business." The criticism, ironically, is that the program is too diligent. What an odd perspective. I am disappointed by such a superficial treatment of the issue.

STUART C. GILMAN
Washington, D.C.

Comparing Compensation

"What's in It for Us?" (Mar. 31, p. 58) takes a contemptuous attitude toward labor. The chart I really wanted to see, right next to the one comparing pilot pay at U.S. airlines with various foreign air carriers, is one comparing airline executive compensation in the U.S. with those same countries.

GARY BRAUCH
Los Altos Hills, Calif.

Vehicle Safety

erry Flint points out correctly in "The Holy War on SUVs" (Mar. 3, p. 74) that SUVs are safer than other vehicles if involved in an accident. He does not mention what happens to the occupants of the other vehicles if an SUV runs into them. I daresay that with the additional momentum an SUV has, versus a lighter vehicle, the non-SUVs suffer more than if they were hit by a "lightweight car."

STEVE JAWORSKI
Woodstock, Md.

When I'm driving on the freeway or in downtown traffic in my little Honda Accord and a Hummer pulls up next to me, the last thing I give a rip about is what the Insurance Institute for Highway Safety says about SUV owner safety. What I'm wondering is whether the driver in the Hummer even knows I'm there.

CHRIS KURTZ
Minnetonka, Minn.

Workplace Safety

Thank you for exposing the realities of workplace-violence insurance in "Risky Business" (Jan. 6, p. 54). Aside from acts of terrorism, many causes of workplace violence are within employers' control. We might not need workplace-violence

READERS SAY

insurance if concern for people as people were incorporated into all management values, policies and practices. Most people simply want to know they've been heard and that their feelings matter. True compassion is an amazingly effective strategy to prevent workplace violence.

JULIA A. ERICKSON
New York, N.Y.

Home Security

Just when you thought you knew how to build your portfolio, another factor to consider is presented in "Got a Big Mortgage" (Feb. 17, p. 168). I'm surprised at how insecure an investment in a home can be and am grateful for warnings of how potential market changes may cause my home to lose value. It is so easy to focus all your attention on getting into a new home and the particulars of a loan, losing sight of protecting your future by securing the investment.

ASHLEY ABEL
El Cajon, Calif.

Paying Pilots

While overall I was impressed by "Death Watch" (Mar. 3, p. 42), I have to take issue with a statement that helps contribute to the widely held belief that airline pilots make a ton of money. The only pilots earning \$225,000 are a small percentage of senior wide-body captains in the twilight of their career. Out of the nearly 80,000 commercial-airline pilots, only a handful are wide-body captains making that kind of money.

ROSS BOOKHEIMER
New Hope, Pa.

History Lesson

"High Tech's New Deal" (Mar. 17, p. 147) incorrectly stated that the IBM 7094 had only 2 kilobytes of memory. The 7094 typically featured the equivalent of 144 kilobytes of memory, meaning today's PC features nearly 2,000 times more capacity than the 7094, not the 1 million times we reported.



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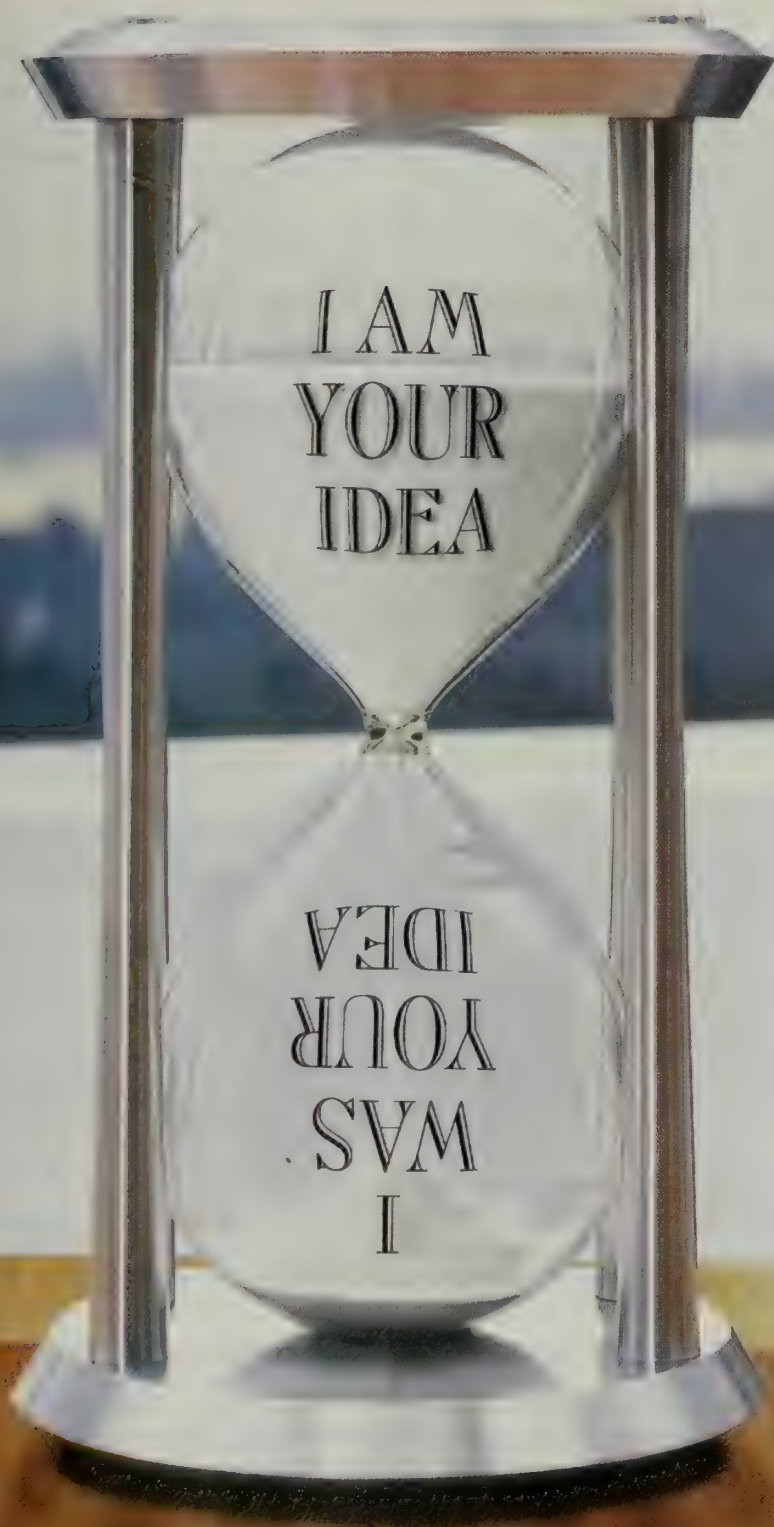
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Iberia, the leading Spanish airline, needed to transform its procurement process to help keep its costs at the competitive levels that have placed it among the world's most profitable airlines in recent years. **I am Iberia's idea, delivered.**

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FACT AND COMMENT

By Steve Forbes, EDITOR-IN-CHIEF

"With all thy getting get understanding"



The Wilsonian UN—R.I.P.

BAD IDEAS NEVER FADE AWAY. THEY'RE DISCARDED ONLY AFTER the shock of actual events graphically displays their wrong-headedness. The United Nations as world peacekeeper has met that fate, even though statesmen will pretend otherwise.

The League of Nations, precursor to the UN, was created after World War I. Woodrow Wilson's idea was that peaceful nations would give up considerable warmaking sovereignty to a world body that would act to keep the peace. If a country committed aggression, the League would lead its members to thwart or defeat the aggressor. But the League was utterly ineffectual. It failed in the 1930s because Britain and France were unwilling to take forceful action against Germany and Italy, not to mention an increasingly militaristic Japan. The League was the first casualty of World War II.

What Wilson and his disciples could never fully grasp is that "collective security" does not come about through a diplomatic version of the Immaculate Conception. Great powers make collective security a reality. Without that leadership, the League—and now the UN—descended into vociferous impotence, irrelevance.

During WWII, the Allies begot the United Nations, thinking they'd figured out how to deal with the League's fatal shortcomings. First, the U.S. became a member of the new organization. People believed that had America only heeded Wilson's call and joined the League, WWII never would have happened. That's why the UN is located in New York, not Geneva; its presence in the U.S. was to be a safeguard against America's lurching back into isolationism.

Second, the Security Council, a diplomatic version of an executive committee, was created to guide this large entity. The Council was to have five permanent members, made up of the powers that, at the time, were thought to matter. Franklin Roosevelt and others assumed the interests of the five would be similar. The Cold War quickly put an end to that illusion as it became clear there were only two powers that ultimately mattered—the U.S. and the Soviet Union—and that their interests were diametrically opposed.

In 1950 the UN voted to intervene in Korea when the North invaded the South only because Joseph Stalin's Soviet Union was

boycotting UN meetings at the time. The Soviets weren't there to exercise their veto. They never made that mistake again.

With few exceptions, the UN has been a sideshow. It could never, as Wilson naively envisioned, meaningfully move against a major power. When the U.S. wanted to intervene in Kosovo in 1999, it ignored the UN after the Russians made it clear they would exercise their veto. Instead, we got NATO's blessing for military action.

In the first Gulf war, the U.S. was able to win the UN's nod. But it's hard to imagine that we and the British would have let Saddam Hussein's seizure of Kuwait stand even if we hadn't gotten UN approval. In fact, the first President Bush had to be persuaded to ask for formal congressional approval.

The comforting notion that the UN is somehow the legit-

imizer, the ultimate arbiter of international affairs, despite its sorry record, has been blasted away. France, aided and abetted by Germany, Russia and China, has destroyed that illusion. International law means nothing unless it is enforced. The President is right: The Security Council did not live up to its responsibilities.

The UN won't cease to exist. It will still run refugee and health care programs. It will hold conferences around the world to pontificate on various global ills, real or imagined. It may play useful roles in build-

ing up civil institutions in war-torn areas, although it has exhibited little competence in that endeavor in Bosnia. The UN could even play the role of peacekeeper in parts of the globe that have no real strategic importance, such as it could have done—and murderously did not—in ethnically divided Rwanda in the mid-1990s.

But the old Wilsonian notion of a governing world body has been laid to rest. This hardly means the world is about to descend into anarchy. Since Sept. 11, 2001 the U.S. has recognized that it must take a proactive role in dealing with terrorists and the rogue states that succor and provide sanctuary to them. We will, on an ad hoc basis, seek to enlist others in helping to fight the forces of darkness and, more broadly, in creating conditions where our liberal values of democracy—of life, liberty and the pursuit of happiness—can sink deep and lasting roots.



Woodrow Wilson campaigns for the League of Nations. History has shown that such organizations cannot deliver on their utopian promises.

Present at the Creation—Again

AT THE END OF WORLD WAR II, THE U.S. FACED UNPRECEDENTED international challenges and responsibilities. Dean Acheson, who was Secretary of State in the Truman Administration, aptly entitled his memoirs, *Present at the Creation*. We are now on the cusp

of a new "at the creation" era. As Vice President Dick Cheney correctly observed, "We had certain strategies and policies and institutions that were built to deal with the conflicts of the 20th century. They may not be the right strategies and policies and institutions

FACT AND COMMENT

to deal with the kind of threat we face now." New institutions and arrangements will arise from the force of circumstances, just as they did after WWII. The late-1940s and early-1950s was an era of enormously creative statesmanship: the Marshall Plan; the Bretton Woods international monetary system, which put an end to the beggar-thy-neighbor policies of the 1930s; the industrialized move toward freer trade via the General Agreement on Tariffs and Trade, which later morphed into the World Trade Organization; and the creation of the most enduring, successful military alliance ever, NATO. Our intervention in Korea in 1950, though frustrating and ill thought-out, showed our adversaries we were willing to shed blood to stop their overt aggression. The Soviets never attacked a NATO state.

NATO, not the UN, has exemplified what effective collective security is all about. Under NATO's treaty, an attack on one member is considered an attack on all. What has given the agreement force is the U.S. Without us, NATO would have been ineffective and irrelevant, and Stalin would have dominated all of Europe. Because of the security NATO provided and our push for liberal political and economic policies, western Europe and Japan made stunningly rapid recoveries from the rubble of World War II. Our successful occupations of Japan and West Germany enabled democracy to be established.

Will we be as creative today? Why not? The U.S. had no advance blueprint for much of the post-WWII order—few U.S. policymakers foresaw the Cold War—but, more often than not, we responded to crises and opportunities successfully—a vivid contrast to the responses of the 1920s and 1930s.

- **The UN.** Let it continue to do humanitarian work. And it can be useful leading peacekeeping missions in various troubled states, such as Liberia, Sierra Leone and the Sudan.

- **NATO.** We should start pulling our troops out of Germany and should station them in southern and eastern Europe, where they are needed and wanted. As the recent assassination of Serbia's Prime Minister Zoran Djindjic demonstrated, the Balkans will continue to be unstable, turbulent.

- **The European Union.** Its expansion from 15 members to 25 should create pressure for making the EU what it always should have

been—a vast free-trade area with open borders and, for most members, a common currency. French fantasies of Paris becoming a superpower, with Jacques Chirac as a modern Sun King, are over.

- **North Korea.** South Korea should encourage North Koreans to come to the South via China (see *Fact and Comment*, Mar. 3). China must understand that if Beijing doesn't play a role in stopping

North Korea's lunge toward nuclear power, we won't discourage Japan from developing its own nuclear capabilities in response.

- **The IMF.** This destructive agency's prescriptions of higher taxes and currency devaluation must be scrapped. Washington must realize that the IMF's dictates have all-too-real political consequences. Its misbegotten policies helped wreck Turkey's economy. Angry citizens there voted in an overtly pro-Islamic government that pretty much gave us the finger when we asked for its help in Iraq. We should preempt the IMF and directly urge troubled countries like Brazil to adopt pro-growth policies—stable money, low taxes, property rights, ease in the setting up of new businesses—until the IMF

gets the message. Paying IMF bureaucrats in the currencies of the countries they advise instead of in income-tax-free dollars (as they currently are) would be one way to reform this antigrowth monster.

- **Iran.** The reigning regime of clerical fanatics is the most active state sponsor of terrorism, and Iran is on the brink of manufacturing nuclear weapons. It is also far along in the development of ballistic missiles that could reach Europe and eventually the U.S. We should encourage street demonstrators to overthrow the dictatorship. The ayatollahs may respond with violent repression; we must then be prepared to consider taking a forceful role—including a military one—to enable a regime change to take place.

- **China.** Beijing will require a deft handling of the carrot-and-stick approach in the hope that internal economic liberalization will create forces for eventual democratic political reform.

Currently pundits are obsessed with the problems, the daunting challenges that face us. But if we are guided by right principles, as we were after World War II, and are filled with renewed vigor, as we were in the 1980s, these problems can be the spur to policies, arrangements and institutions that will lead us and the world to a new plateau of peace and freedom and prosperity.



Secretary of State Dean Acheson, with Harry Truman at his side, signs the North Atlantic Treaty that created NATO in 1949.

RESTAURANTS: GO, CONSIDER, STOP

Edible enlightenment from our eatery expert Tom Jones and colleagues Patrick Cooke and Monie Begley, as well as brothers Bob, Kip and Tim.

- **Jimmy's Downtown**—400 East 57th St. (Tel.: 212-486-6400). This sibling of a popular Bronx sports-star hangout is as *picante* as the flavored olive oil served with delicious bread. Hip, friendly bar with quieter restaurant in the back. Recommended: generous paella, excellent artichoke salad and tasty coconut flan.

- **Terrance Brennan's Seafood & Chophouse**—Benjamin Hotel, 565 Lexington Ave., at 50th St. (Tel.: 212-715-2400). Blisteringly expensive new spot, with inept, disorganized service. Steaks ordered medium rare are served well-done, the wood-fired

chicken is dry and the broccoli rabe is overcooked. Desserts are too sweet and too contrived. There are hints (splendid sea urchin appetizer and grilled tuna) of the kitchen's capabilities.

- **Compass**—208 West 70th St. (Tel.: 212-875-8600). Great place to eat in the Lincoln Center area. Chic, comfortable and impressive. The fare is consistently delicious. The fish is best: Try the tuna sashimi appetizer and the wonderful skate. Also of note are the fennel and Parmesan salad, the foie gras, the special mashed potatoes and the yummy dessert concoctions. **F**



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THEN YOU BUILD.



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OTHER COMMENTS

*It is a worthy thing to fight for one's freedom;
it is another sight finer to fight for another man's.*

—MARK TWAIN

Free Riders Both China and South Korea resist pressuring North Korea because they more immediately fear chaos from a collapse of the rogue state than its nuclear potential. The South wants the North to open slowly, so it can be a source of profit, not national bankruptcy. Similarly, China doesn't want to face a united Korea and likes the North as a buffer between it and the freewheeling South. Both so cling to the status quo that they are risking badly deteriorated relations with the U.S.—to say nothing of the dangers of a nuclearized Korean peninsula. So much has been made of the North's dangerous brinkmanship that it's become cliché. But the Chinese and South Korean aversion to joining with the U.S. in exerting pressure on the North has now also become its own kind of dangerous brinkmanship.

—Baltimore Sun

Merci, Monsieur Chirac In failing to secure a UN Security Council resolution explicitly authorizing war in Iraq, the U.S. dodged a bullet. Merci, Monsieur Chirac. It would have created a presumption that Security Council approval is the necessary prerequisite for the use of American force abroad, and this would have posed incalculable dangers to world peace in the long term.

The Security Council was conceived as the bulwark of peace, but this proved to be a pipe dream. On the rare occasions when the council has acted against aggressors, the U.S. has done most of the heavy lifting. While the UN has performed no effective peace-enforcement without the U.S., the latter has in many cases upheld the peace without the UN. The harsh reality is that American power does much more than the Security Council to preserve the peace. To subordinate the former to the latter would be a terrible mistake.

The world would be anything but safer if a principle became

enshrined that deterred the U.S. from defending Taiwan without Beijing's permission or Poland without Russia's, or Israel without the assent of the UN. Happily, those most eager to cut us down to size have overplayed their hand and blown their chance to tie us down in the duct tape of the UN. Now we can get on with the job of removing Saddam and sending a message to would-be Saddams not to bank on the Security Council (or France) to provide them a shield.

—JOSHUA MURAVCHIK, American Enterprise Institute,
Wall Street Journal

Lesson in Lessening If you are truly serious about preparing your child for the future, don't teach him to subtract—teach him to deduct.

—FRAN LEBOWITZ, *Social Studies*

Hard to Say No After spending the past two years complaining about the after-effects of the bursting of the Clinton stock-market bubble, Democrats may encounter political problems criticizing the elimination of the double taxation of dividends. After all, it is a policy action whose undeniable impact will be to raise stock prices higher than they otherwise would be. Particularly problematic for Democrats will be the fact that 84 million individuals, including two-thirds of voters, are now shareholders. Whether or not the dividends shareholders receive are already tax-exempt [defined-contribution pension funds] or tax-deferred [IRAs and 401(k)s], shareholders will benefit, as the value of their stock increases beyond what it would be under double dividend taxation.

—Washington Times

Labor of Love A hundred times a day I remind myself that my inner and outer life are based on the labors of other men, living and dead, and that I must exert myself in order to give in the same measure as I have received and am still receiving.

—ALBERT EINSTEIN

Ode to Taxes Tax his cow, tax his goat;

Tax his pants, tax his coat.

Tax his crops, tax his work;

Tax his tie, tax his shirt.

Tax his chew, and tax his smoke.

Teach him taxes are no joke.

Tax his oil, tax his gas;

Tax his notes, tax his cash.

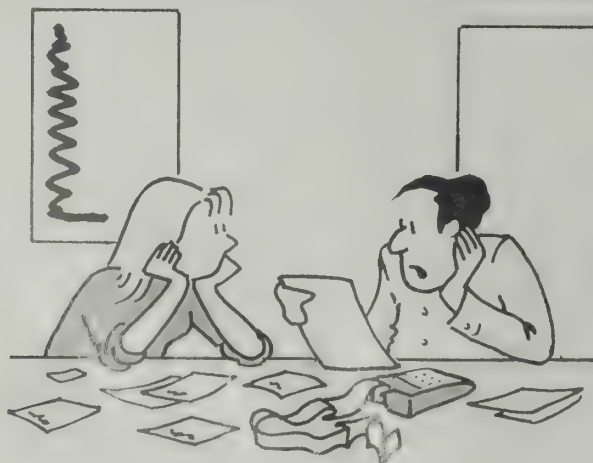
Put these words upon his tomb:

"Taxes drove me to my doom."

When he's gone, he can't relax.

He'll have to pay an inheritance tax!

—AUTHOR UNKNOWN **F**



*"Unfortunately, a penny saved is
subject to federal, state and local taxes."*

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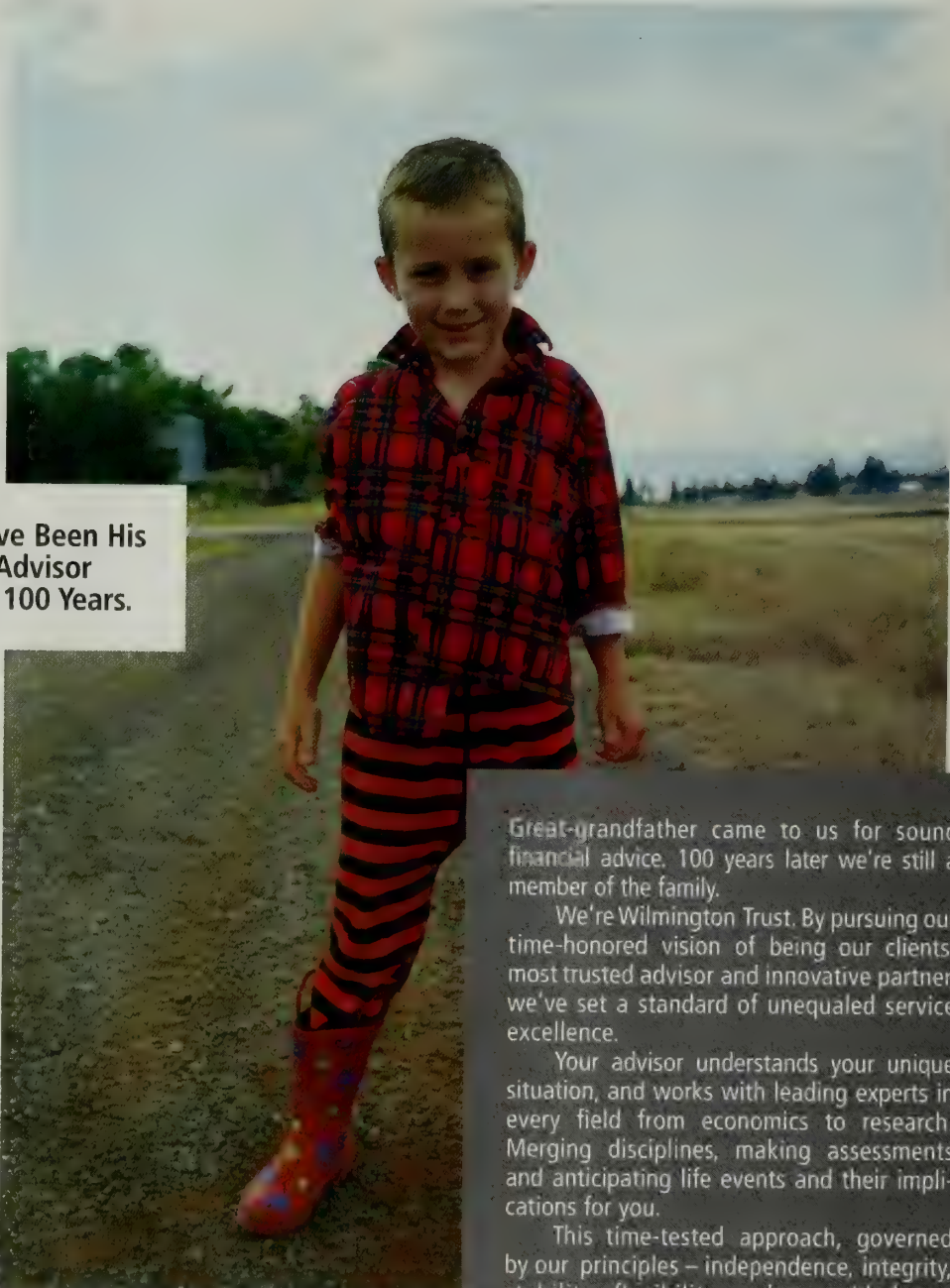


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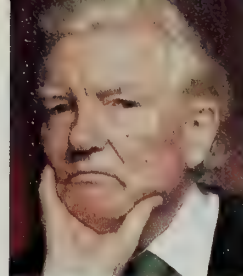
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By Paul Johnson



Riches Breed Innocence But Not Happiness

AT SOME OF BRITAIN'S STATE-RUN UNIVERSITIES—AND EVEN AT Oxford and Cambridge—there is a crazy campaign afoot to discriminate against the children of the rich. Admissions boards are turning down well-qualified students who were educated at fee-paying prep schools or whose postal codes indicate they come from wealthy residential areas. So-called disadvantaged students with lower IQs and poorer exam results get the places instead.

Class envy of the rich has always mystified me and makes less and less sense in today's world. When Jesus Christ preached in Palestine two millennia ago, the distinctions between rich and poor were painfully visible. The rich were plump and well-clad, warm and clean, scented and groomed. The poor were thin, in rags, filthy and stinking. Even in the 17th century, when the first Europeans settled in New England and Virginia, many of them noted with delight that wood was so plentiful they could all keep their houses warm in winter. As late as the 19th century, immigrants to the U.S. rejoiced that they could eat meat every day, buy their own farms, start their own businesses. The words "rich" and "poor" still meant a great deal in terms of everyday necessities. And when I was a child in the 1930s, poor people were still unmistakable because of their thin clothes, worn shoes, smell, lack of robustness and size. The rich looked and dressed rich and exuded prosperity in visible ways.

Billions Bring Burdens

Now all that has changed. The "poverty line" has to be revised upward every year. The officially "poor" now have cars, often own homes, take holiday trips and possess all the appliances judged indispensable. For the first time in history, plumpness and obesity are signs of poverty. The rich are lean, dieting on salads and often refusing to eat meat. They may still spend a fortune on clothing, but the results are not obvious. Clever mass production and marketing mean that a smart girl with taste, though she only works in a drugstore, can dress as elegantly as a Rockefeller or a Rothschild. In advanced countries (and in a growing proportion of the Third World) central heating, hot running water, fresh milk and fruit are now taken for granted. It takes less than a decade for today's luxury to become a universal necessity.

As people who acquire riches quickly discover, once you are well-fed, clothed and housed, you have to either spend your money on competitive ostentation—or save it. Either choice brings problems and worries. Recently I asked a very rich friend the reason for his mask of misery and was told: "In the last two years the nominal value of my assets has fallen by half a billion dollars." The fact that he is still, to use Samuel Johnson's phrase, "rich beyond the dreams of

avarice" makes no difference. He still feels the pain of loss.

Vast possessions bring about endless jockeying for their division in the next generation or gruesome efforts to prevent their falling into the hands of greedy governments. My old chum, Sir James Goldsmith, whom I saw rise from a penniless boy of 16 to billionaire status, had his last months of life poisoned by fears of dying in a country with a hostile tax regime. Shortly before he succumbed to cancer, he moved from his house in France to another in Spain—and the effort killed him. I know several instances in which rows over wills have led to irreparable splits in once-loving families and misery for all involved. In theory, wealth brings you the best health care and prolongs life. But that is often an illusion. Poor Goldsmith, who was only 64, turned in desperation to a guru whose efforts to cure him merely brought excruciating pain. The very rich, faced with disease or death, often become victims of fashionable doctors, socially smart clinics and gross incompetence.

The rich still do have some advantages. They can buy a certain amount of privacy. But not always. The Barclay brothers, two of Britain's superrich, purchased an entire offshore island to escape the intrusive media. But this very move tempted reporters to invade the Barclays' territory unlawfully, using James Bond-like methods. Moreover, it was their very possession of vast wealth that made the media so inquisitive in the first place.

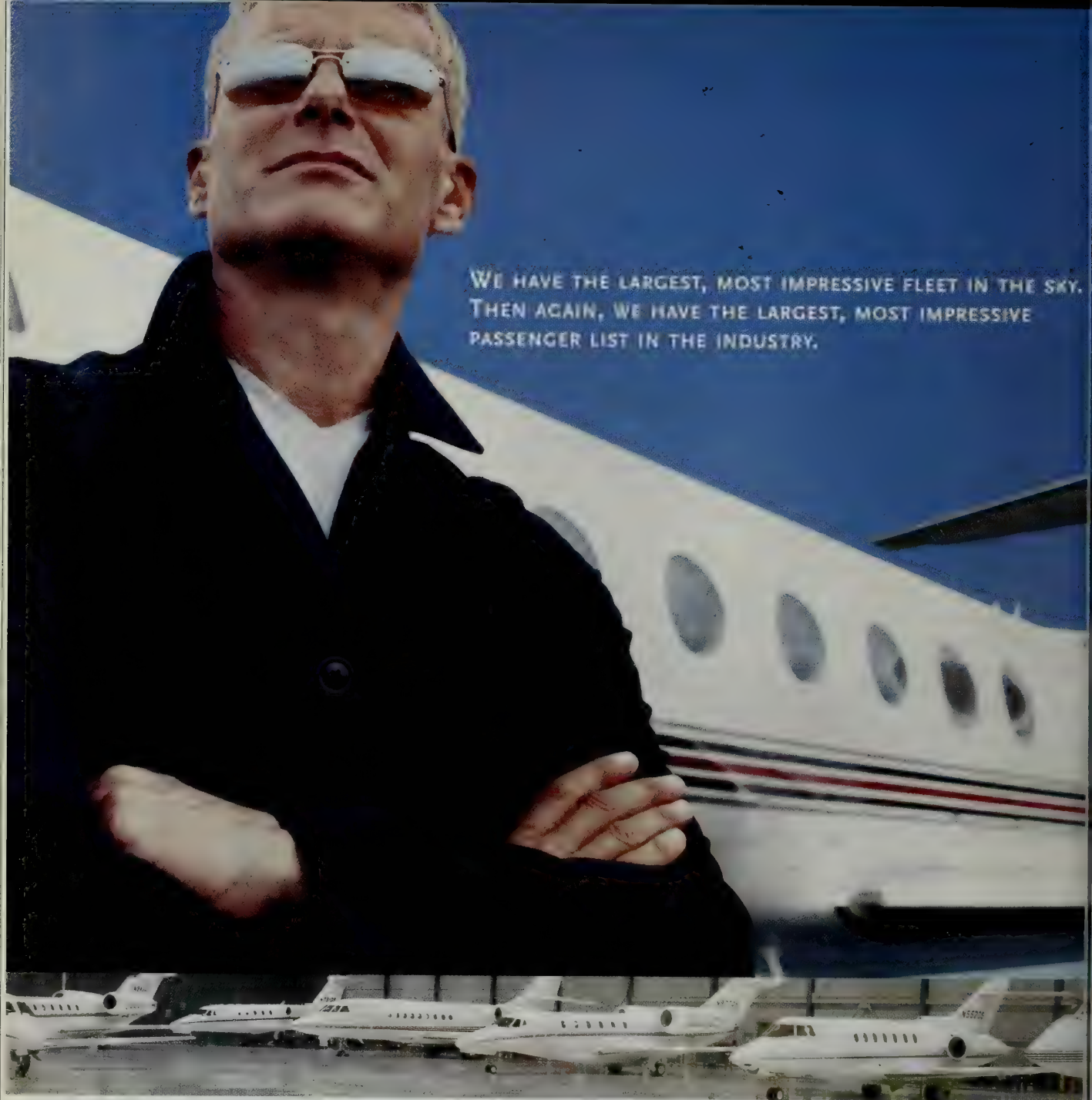
The biggest privilege a rich man has is in transportation. The last recorded actions of the late print tycoon Robert Maxwell illustrate this point. He took an elevator to the roof from his suite in his corporation's building in London. There he stepped into his helicopter, which took him to his pad at a London airport. His private jet then conveyed him swiftly to a landing strip on Gibraltar. Near it was moored his splendid yacht, *Lady Ghislaine*, which instantly weighed anchor and took him out to sea.

But why did Maxwell want to go to sea so grandly? To commit suicide and so escape his business problems. Great wealth always has its price—in the next world, certainly, but here, too, as a rule.

The need for men and women to become rich is one of the deepest, most important and valuable of human impulses. It is a driving force behind inventions and technology, innovation and experiment, the market and the entire capitalist system. In the long run a rational cupidity is the friend of the poor, the enemy of disease and human misery, the paymaster of culture and learning, and the father of virtues—for Dr. Johnson was right in saying that "there are few ways in which a man can be more innocently employed than in getting money." But amassing wealth has nothing to do with happiness. So why envy the rich? **F**

Forbes
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Paul Johnson, eminent British historian and author; Lee Kuan Yew, senior minister of Singapore; and Ernesto Zedillo, director, Yale Center for the Study of Globalization, former president of Mexico; in addition to Forbes Chairman Caspar W. Weinberger, rotate in writing this column. To see past Current Events columns, visit our Web site at www.forbes.com/currentevents.



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Money and Meaning

MONEY IS NICE. IT CAN BUY US TIME. IT CAN STRIP AWAY worry. That you read *FORBES* means you take the subject of money seriously—and you should. Money is worthy of our thoughts, our desires, our dreams, our work.

(Sorry, Paul Johnson, but the billionaires I know—Bill Gates, Larry Ellison, et al.—seem thoroughly happy.)

But in the final analysis what makes us happy or regretful is not only money but if our lives have found purpose. Have we made a positive difference? Have we influenced people? Have we pursued our best talent?

Bad eternity: After a life spent as, say, a corporate strategist, you discover to your horror that you could have been a world-renowned scientist or inventor. Maybe you lacked only the faith to follow your passion. If so, that knowledge would be tragic. We insult our Creator when we don't pursue what we were put on earth to do. We each come down life's gumball chute with a backpack of unique talents. Imagine, then, facing the Creator at death and hearing the words: "I made you as this. You pursued that. What a squandering of potential." That would be hell.

Beyond the fact that capitalism, along with free trade, causes societies to prosper, lies a more vital consideration—capitalism lets us pursue our God-given gifts. This is the essence of it! Prosperity and money are mere second-order effects of capitalism, happy by-products. The opposite of capitalism and free trade would be something like subsistence farming or perhaps a nomadic existence. Imagine if each of us had to grow his own food, make his own clothing or snip out his own appendix. Sickness and poverty would be our lot. But that's not the worst of it. The real tragedy would be a natural-born software writer, currency trader or CEO spending his days trapping squirrels.

Loss of confidence in capitalism occurred in the 1930s and for a few years in the 1970s. It wasn't pretty. It won't be pretty if it happens again, as it could if the war takes a bad turn or the economy continues to limp along. At this uncertain hour we need to pour on the gratitude for our blessings. Capitalistic America, for all its imperfections, still offers the most people the greatest number of chances for a meaningful life.

Shape of Things to Come

Do you get the feeling that the shape of the early 2000s is about to reveal its contours over the next few weeks? It's more than the war in Iraq. In my last editorial I described one clear development: the coming Cheap Revolution. The industrial world has entered a period in which China, India, the Internet and a tech glut will become platforms for shockingly cheap products and services. Winners will be quick-moving companies that know how to reconstitute inexpensive resources into fabulous new

offerings—i.e., Google, with its Internet search abilities built on back-room PCs and Linux software—or firms such as IBM that learn to replace lost product margins with scalable services. Losers will be slow adapters stuck with high fixed costs.

Look for a middle-class flight to small and medium-size American cities as a sign of the Cheap Revolution. A 2,200-square-foot house on a quarter of an acre in Silicon Valley costs \$1.5 million. You can buy the same house, with a basement, for \$140,000 in Des Moines. How many families in New York and California, hard-pressed by falling incomes, underwater stock options and shriveling 401(k)s, may suddenly pull up stakes and head out to friendlier (cheaper) climes? Lots of them, by my observation.

Less clear is how the Iraq war might alter trading alliances. Do you feel like trading in your Mercedes for a Jag just to stick it to Gerhard Schröder? You're not alone. Feelings are raw these days. People seem to be itching for a trade war. Let's hope cooler heads prevail. The world needs capitalism, and capitalism needs trade.

Cheap Shot?

I've known Tom Siebel for 24 years. During the 1980s I watched him build a world-class sales organization at Oracle. Ten years ago Tom launched what has become a \$1.6 billion (sales) software giant, Siebel Systems. Tom took issue with my Mar. 31 editorial, in which I said Siebel's empire was vulnerable to a disruptive attack from below:

"Rich, I found it curious that in your recent column, 'The Cheap Decade,' you compared Siebel Systems—the second-largest enterprise applications company in the world, with more than \$2 billion in cash—to a company that generates what amounts to 3% of Siebel's revenues. In 2002 we generated more than \$500 million in cash on sales in excess of \$1.5 billion. Throughout the recent economic downturn, we continued to consolidate our market position, exiting the year with roughly 80% market share in the customer relationship management (CRM) software market, a year in which more than 2,100 software companies ceased operations.

"In tough economic times, smart CFOs may be skimping on their suits. But when it comes to running their companies, they aren't willing to compromise quality for price. During 2002 we added approximately 700 new customers, and more than 1,000 customers expanded their use of our products. Today, 3,500 of the world's leading organizations have standardized on Siebel eBusiness Applications and, as a result, are achieving unprecedented economic returns: Each dollar our customers have invested in Siebel software has returned \$2.36 for them. That's why 98% of our customers plan to continue purchasing our products." **F**



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Not an Option

YOU WON'T FIND A MORE ARDENT DEFENDER OF STOCK OPTIONS as pay for the rank and file than T.J. Rodgers. Nor anyone more colorful in objecting to the idea of treating these incentives as an employment expense. The chief executive of chipmaker **CYPRESS SEMICONDUCTOR (7, CY)** says those who want to expense options suffer from "recto-cranial insertion."

Perhaps the fellow protests too much. Our theory: Cypress has too darn many options floating around. It's a reason to dump the stock.

So big is the option plan at Cypress that if all options were exercised, employees would own a fourth of the company (called, in options parlance, the "overhang"). For now the options are not dilutive. Many are underwater, so no one is exercising. In any event, Cypress is in the red. Last year it lost \$249 million, or \$2.02 a share.

If the options are so far out of the money, why do we object to them? Two reasons. One is that Cypress has a history of resetting option strike prices lower; it has done just that four times since 1996. The other is that, even without a reset, these options represent a large claim on the potential payoff from a speculative company like this. Since it doesn't pay a dividend, the whole reason for investing is the long-shot chance that the company will return to its former glory (shares peaked at \$58 in 2000). Why share your lottery ticket with the workers?

It's easy to see why Rodgers would squawk about the proposal to expense options. Had Cypress expensed its options and its employee stock purchase plan in 2000, its last good year, earnings per share would have shriveled from \$2.03 to \$1.51.

There's another incentive plan at Cypress that should give investors pause. The company has lent \$107 million to 2,100 employees to buy and hold its stock—workers use their shares as collateral for the loans, along with other assets, according to its



government filings. As the stock has cratered since the plan debuted, the market value of the stock collateral was \$78 million shy of the debt as of the end of last year. To reserve against the possibility that the company will simply have to forgive a chunk of these loans, Cypress has set aside a meager \$16 million. Chief Financial Officer Emmanuel Hernandez says Cypress isn't planning to write off the loans and doesn't plan to call them either, because that "would ruin morale over here."

Cypress takes exception, of course, to our reasoning. First, the options in question are real morale-boosters for workers, not an insider enrichment scheme. Rodgers says options held by him and his board members were not reset and that Cypress plans to cut its options overhang to 20%.

He also says Cypress will offset dilution via stock buybacks, although doing so would shrink the number of shares outstanding and thus worsen the EPS hit from losses. Besides, where's the company going to get the cash for this purpose? Last year it scorched through \$136 million (\$22.5 million in cash from operations minus \$158.5 million in capital expenditures). There are plans to cut cap-ex this year, but with \$469 million in debt the balance sheet is none too strong. Short the low-riding shares, cover at \$3.

—Elizabeth MacDonald

Breathe Easier

THE VITAL SIGNS OF one of the home health industry's leaders, **APRIA HEALTHCARE GROUP (22, AHG)**, are flagging. Suffering from concerns about lower Medicare reimbursements and an overbilling investigation, Apria stock has drooped 27% since its December 2000 high. It trades at a cheap 11 times trailing earnings.

But Legg Mason analyst Jerry L. Doctrow terms the pessimism overdone.



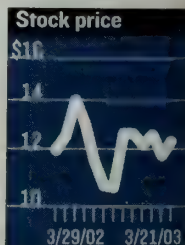
Apria provides respirators, drug-infusion devices and other equipment to help homebound patients—a growing need. Revenue last year rose 11% to \$1.25 billion; net income, 61% to \$116 million.

Only 33% of Apria's revenue comes from Medicare and Medicaid payments (which Congress may cut), versus as much as 62% at competitors like Lincare. Also, the Justice Department's calculation that Apria may be liable for overbilling claims and fines up to \$9 billion is way high. Since there's no fraud alleged, the outcomes of similar cases suggest Apria will end up paying more like \$10 million, Doctrow says.

—Christopher Helman

Headache Gone

WHY BUY TYLENOL, WHEN THE STORE brand costs so much less? **PERRIGO (PRGO, 12)** makes 50% of nonprescription drug knockoffs. The company's profits took a hit in the late 1990s, when buggy software caused distribution problems. That's fixed, says Charles Cerankosky, an analyst with McDonald Investments. Net income for fiscal 2003's first half was up 32% to \$36 million, on \$441 million in sales. Trailing multiple: 14.



—Daniel Kruger

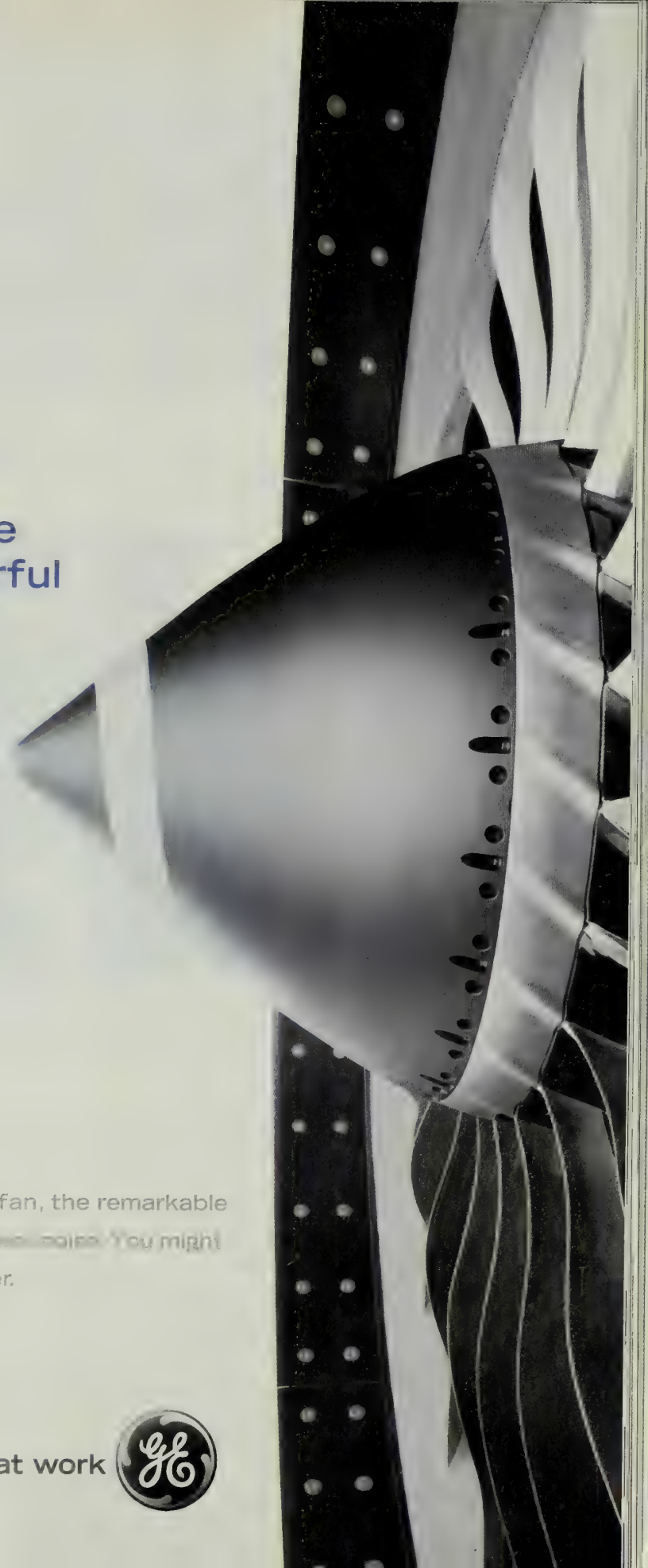
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FORMER DIRECTOR OF THE FDA'S OFFICE OF BIOTECHNOLOGY.

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if fearmongers in the food industry and government don't stop us.

CROP PLANTS LIKE CORN AND TOBACCO CAN NOW BE programmed with gene-splicing techniques to produce precious pharmaceuticals. Will the U.S. welcome this godsend—or be cowed into outlawing it?

Biopharming is not as science-fictionary as it sounds. People have been extracting medicinals from plants for a thousand years. Morphine comes from the opium poppy; an ancient willow bark remedy is similar to aspirin. But biopharming's great promise lies in the ability of gene-splicing techniques to make old plants do new things. Scientists are testing crops that would produce blood thinners, insulin and herpes treatments. And it's hard to beat the economy of the process. The raw materials for these drugs are the plants themselves, water and carbon dioxide; the energy comes from the sun.

The fear, as propagated by the food processing industry and other critics, is that drug genes will hop to the chromosomes of plants used for food, contaminating the food supply with vaccines and drugs, in turn triggering costly recalls and potential legal liability. Food producers are demanding stringent federal regulation—a quite literal example of Nimby (Not in *my* back yard!) syndrome—and are close to getting it.

In March the Department of Agriculture proposed a set of rigid, one-size-fits-all rules. Land used to grow biopharmed corn, for example, would have to lie fallow for the following season, a requirement that would promote soil erosion and whose expense would discourage many farmers from biopharming. Also proposed is an expensive requirement of separate equipment for biopharming.

It is understandable that the food industry wants to protect our efficient and safe systems of food production and distribution, but their anxiety takes into account neither the realities of contemporary agriculture nor the nuances of biopharming.

All crop plants have relatives somewhere on the earth, and some gene-flow commonly occurs when two plants are grown close together. Although that could happen with a crop that has

been modified to synthesize a pharmaceutical, it's unlikely. It would happen only if a certain gene from the crop confers a selective advantage on the recipient—an occurrence that should be uncommon with biopharming, where most often the added gene would make the plant less fit and less able to proliferate.

Gene transfer is an age-old concern of farmers, who've

learned how to prevent pollen cross-contamination when necessary for commercial reasons. For example, in order to maintain the highest level of genetic purity, distinct varieties of self-pollinated crops such as wheat, rice, soybeans and barley need to be separated by at least 60 feet.

The sophistication of modern agriculture enables us to safely cultivate crops for both food and new pharmaceuticals, and to ensure that ne'er the twain shall meet, at least in a way likely to cause injury. Having said that, one must realize that human error is inevitable. Last year biopharmed corn that was synthesizing a vaccine to prevent diarrhea in pigs contaminated 500,000 bushels of soybeans. The soybeans were destroyed and the company testing the



"Food producers are demanding stringent federal regulation—a quite literal example of Nimby (Not in my backyard!) syndrome."

corn, Texas-based ProdiGene, was fined.

What is the likelihood of consumers sustaining injury, even in a worst-case scenario? Several highly improbable events would have to occur. First, the active drug would have to be present in the food at sufficient levels to exert an adverse effect via direct toxicity or allergy. Second, the active agent would need to survive milling and other processing, as well as cooking. Third, it would need to have a biological effect when ingested.

None of this is likely. If only tiny amounts of biopharmed corn had been combined with the entire soybean harvest, the toxicity would have been diluted. The drug produced by the ProdiGene corn is not pharmacologically active, except in the sense that it is intended to elicit antibodies.

As the field begins to demonstrate its potential, reasonable, science-based public policy must ensure that we all reap the potential benefits sown by biopharming.

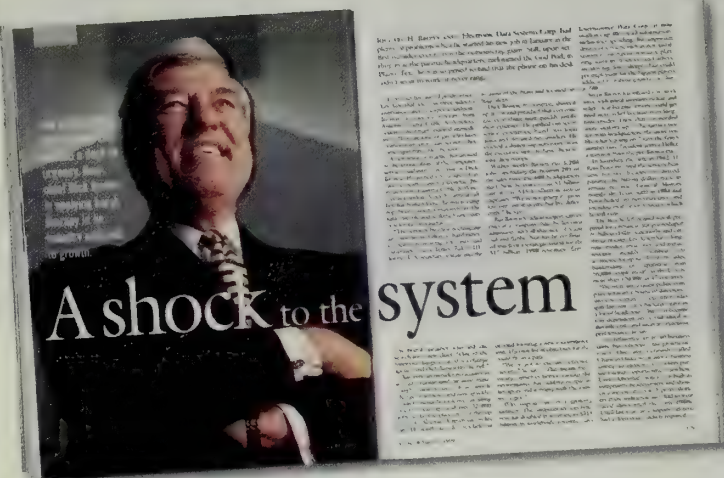


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A shock to the system

MAY 31, 1999

Die by the Sword

ASHOCK TO THE SYSTEM" IS HOW WE DESCRIBED RICHARD Brown shortly after he took over as chief executive of computer outsourcing giant EDS four years ago. By then the storied firm founded by H. Ross Perot had grown fat and happy, despite chronic financial underachievement. Brown made short work of cutting thousands of jobs and billions of dollars in costs. He impressed Wall Street by setting high growth targets and hitting them. Profits reached a record \$1.4 billion in 2001.

Flashbacks

80 YEARS AGO IN FORBES/APRIL 14, 1923

Delicate Diplomacy Is American diplomacy deteriorating? Recent lamentable incidents instigate the question. A Cabinet Minister charges Britain with having shut American and other oil interests out of certain parts of the world, and bases a vitally important decision, at least partly, on this ground. An apology has to follow as the Cabinet Minister's charge was unwarranted. Next, aspersions are cast upon Britain's observance of the international naval compact; and this also proves unfounded. France, rightly or wrongly, feels that she has not received a square deal from America, but has been badly let down. No nation, not even a nation as supremely powerful as the United States is today, can afford to offend other nations unjustifiably.

25 YEARS AGO IN FORBES/APRIL 3, 1978

Accountants, Police Themselves The outcry for a whole new system of accounting or for government-imposed rules and standards, while not entirely muted, is generating fewer decibels. The accountants have moved to implement new forms of self-regulation and at least some of their critics have agreed to give them time to let them work. The centerpiece is a super board of overseers, which includes banker-lawyer John McCloy and two former SEC chairmen. The American Institute of CPAs has also created a new division, which has firms rather than individuals as members. This, theoretically, strength-

Turns out Brown was too far-reaching by half. As the computer services industry has slowed, major clients like WorldCom and U.S. Airways have also plunged into bankruptcy. EDS lost over a quarter-billion dollars last year betting, wrongly, that its stock would recover. Then last September Brown had to fess up to a staggering 80% miss on his earnings forecast. It was all too much for the board. It replaced Brown Mar. 20 with retired CBS chief Michael H. Jordan.

—Neil Weinberg

MARCH 31, 2003

The Verdict

OUR PROFILE OF SECRETIVE AUSTRIAN FIREARMS MAKER GASTON Glock left our readers hanging as to the fate of former Glock associate Charles Ewert. In July 1999, according to Luxembourg authorities, Ewert hired an assassin to kill Glock. On Mar. 12 Ewert and hit man Jacques Pêcheur were both found guilty of attempted murder following a three-week nonjury trial in Luxembourg. Ewert received the maximum sentence, 20 years, while Pêcheur got 17. Glock, who survived the attack in a Luxembourg parking garage, praised the verdict, adding that Ewert has more to fear from his lawyers and from Luxembourg authorities. "It is one step in a war," says Glock, referring to a pending investigation of embezzlement and fraud charges against Ewert.

—Dyan Machan

ens its disciplinary machinery. The CPAs' self-policing plan (with which they are still tinkering) has won the approval of the SEC. Commission Chairman Harold Williams, in fact, has defended it before Congress, saying "that it would be premature to override the profession's efforts at this time."

20 YEARS AGO IN FORBES/JANUARY 3, 1983

Warren Buffett Strikes Again The rich get richer. Or maybe we should say the smart get richer. When investment genius Warren Buffett bought the ailing *Buffalo Evening News* back in 1977, a lot of people figured: Oh, well, he's rich enough to have an expensive hobby. After all, the Omaha-based businessman and investor was already prosperous enough to make The *Forbes* Four

Warren Buffett



Hundred. And what happens to Buffett's folly? Several months ago the rival morning *Courier-Express* folded, leaving Buffett with a monopoly daily and Sunday newspaper in a somewhat depressed but still rich area of western New York.

The *Buffalo Evening News* was acquired for \$33 million in 1977. It's now worth an estimated \$400 million.

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FOLLOW-THROUGH

FEBRUARY 19, 2001

Hot Wire

THERE WASN'T ANY DOUBT WHEN WE RAN our story on Anicom that someone did some serious book-cooking. The question was who. The U.S. Attorney's Office now blames six ex-Anicom executives for sinking the former Rosemont, Ill. distributor of cable, wire, networking and fiber-optic parts. Federal indictments handed down on Mar. 13 accuse former chief executive Carl Putnam, onetime chief financial officer Donald Welchko and four others of engaging in a scheme to inflate sales and profits that led to Anicom's bankruptcy two years ago.

Ducking the bullet are Anicom founder and former chief Scott C. Anixter and his father, Alan B. Anixter. But the Anixters didn't get off cheaply. A preliminary settlement deal would have them pay \$12.5 million of a \$40 million class action brought by shareholders who say they were deceived. The Anixters' attorney says the proposed U.S. District Court settlement came without any admission of guilt or liability on their parts. What does the Securities & Exchange Commission say? Nothing yet; it's still investigating.

—Mark Tatge

APRIL 1, 2002

Dashed Cancer Hopes

A YEAR AGO IT LOOKED LIKE STANLEY Crooke's decadelong struggle to perfect a powerful new class of drugs was about to pay off. The chief executive of Isis Pharmaceuticals had landed a big deal with Eli Lilly & Co. to develop a lung cancer treatment, among other things, using the new drugs, called "antisense." They stop DNA from making disease-causing proteins.

The struggle continues. In March partners Isis and Eli Lilly announced that the new drug, Affinitak, failed to prolong the survival of patients in a large clinical trial. "It's a terrible disappointment," says Crooke. He's now hanging his hopes on a late-stage trial that combines Lilly's chemotherapy drugs Gemzar and cisplatin with Affinitak and compares the



Still making antisense:
Isis' Stanley Crooke.

combo to Gemzar and cisplatin alone. Results are due late next year. If they are disappointing, Isis and Lilly will be pulling the plug on Affinitak. Crooke insists he will plow ahead with other antisense drugs. Isis shares trade at \$3. down 80% from a year ago.

—Zina Moukheiber

NOVEMBER 25, 2002

Follow the Paper

WE WERE THE FIRST TO REPORT THAT THE U.S. Attorney's Office in New York was presenting evidence to a grand jury relating to the blowup of the nation's fourth-largest papermaker, which cost banks and bondholders at least \$300 million. Last month Mehdi Gabayzadeh, the former chief executive and part owner of Hauppauge, N.Y.-based American Tissue, was indicted for securities fraud, bank fraud and conspiracy. The government also charged Brendon McDonald, a former senior auditor at Arthur Andersen, with obstruction of justice in connection with the destruction of American Tissue documents. Edward Stein, American Tissue's former chief financial officer, pleaded guilty to securities and bank fraud, and John Lorenz, a former vice president at the company, pleaded guilty to a conspiracy charge. Gabayzadeh, who pleaded not guilty, was released on \$5 million bail. He faces a maximum 45-year jail term if convicted on all counts.

—Nathan Vardi



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Security Blanket



The threat of smuggled bombs has the government ordering up detailed contents lists for containers. What's to stop a terrorist from lying about what's inside? Not much.

BY CHANA R. SCHOENBERGER

IF YOU WANT A NOTION OF HOW easy it would be for terrorists to slip a dirty nuke, a canister of nerve gas or a bundt cake of C4 through a U.S. port, consider this statistic from Brookings, the Washington think tank: If the newly renamed U.S. Customs & Border Protection agency were to inspect all incoming containers, it would need to spend \$50 billion a year. The Customs inspection budget is \$2.3 billion.

The U.S. lands 6 million cargo containers a year, including transshipments, or containers en route to another overseas port. Currently, the feds physically search only 2% of them.

"You ought to be damn afraid," says Thomas Sheets, chairman of the

National Cargo Security Council trade group and director of corporate security services at Palo Alto, Calif.-based CNF, a logistics company.

To limit the threat, Customs is placing inspectors in 18 of the 20 biggest foreign ports and ordering shippers to submit far more detailed manifests a week earlier than before. Lists of shipped items are fed into a computer in the government's newly upgraded Automated Targeting System, which uses artificial intelligence software to flag suspicious containers based on combinations of country of origin, weight discrepancies and names linked to terrorist groups. Corporate shippers are encouraged to go through Customs certification, which

Each of the thousands of containers arriving daily in Seattle is a potential threat.

establishes a company as a legitimate exporter and gets its goods to the front of the line.

But just because the manifest says "women's cotton sweaters" doesn't mean a dirty bomb isn't inside. "You can't be 100% sure," says Sandra Scott, lobbyist for Akron, Ohio trucking company Roadway Express. A seemingly legit sweater export company could be a front for a terrorist organization, or a terrorist could get a job loading the containers, both old tricks of the cocaine trade.

"We try to train people to look for telltale signs that something might not be right, but rely on Customs to do the vetting," says Earl Agron, director of port and container security at APL, a Sin-

The Two-Month Window

A law intended to keep tabs on explosives doesn't take effect until May 24. Good for terrorists, bad for July 4th fireworks.

BY EMILY LAMBERT

THE SAFE EXPLOSIVES Act, signed into law Nov. 25, 2002, goes into full effect May 24. The law is designed to keep dangerous materials, such as dynamite, fireworks and gunpowder, out of the hands of terrorists—at least, that's the plan.

Problem is, until May 24 anyone has pretty much free rein to buy explosives, and even after that it won't be all that difficult.

The law is aimed at strengthening restrictions on who is legally allowed to handle explosives, bringing those restrictions in line with what's required of people who handle firearms. Aliens without green cards, dishonorably discharged military employees and anyone who has renounced American citizenship are barred from handling explosives under the new law.

Starting May 24 anybody who handles explosives—sellers, buyers or transporters—will need a background check, which includes being fingerprinted, photographed and passing a criminal history check, before obtaining a permit. Until then anyone can buy explosives, provided they don't cross state lines. "Anyone could pull the wool over our eyes at this point," admits John Malone, assistant director for firearms, explosives and arson programs at the Bureau of Alcohol, Tobacco, Firearms & Explosives.

Malone says once in effect the new law will be strong enough to keep a close eye on explosives. But there are a few oddities. The law is less stringent toward people who buy explosives infrequently, six or fewer times a year. They need obtain only a "limited permit." While these permits still require background checks, they impose fewer recordkeeping requirements and restrictions. For example, the government won't be inspecting the storage facilities of limited-permit holders, as they will those with regular permits.

The biggest omission: Fewer than 2% of actual and aborted bombings in the U.S. have involved commercially manufactured high explosives, according to the Institute of Makers of Explosives. Common fertilizer, or ammonium nitrate, which was used in the Oklahoma City bombing, is much harder to regulate. The Safe Explosives Act only requires that ammonium nitrate manufacturers submit samples upon request. The Fertilizer Institute says it's doing what it can to ensure that fertilizer goes only to farmers.

Meanwhile the folks who seem most upset by the law are model rocketeers and fireworks makers. Rocket fuel is covered under the new law, prompting the National Association of Rocketry and the Tripoli Rocketry Association to file suit in federal court in Washington, D.C. to make it exempt. And Julie Heckman, executive director of the American Pyrotechnics Association, is playing a patriotic card. She is warning that Fourth of July celebrations might have to be canceled. Why? Because shipping companies are already refusing to transport pyrotechnics rather than get in hot water for not having all employees cleared by the government.



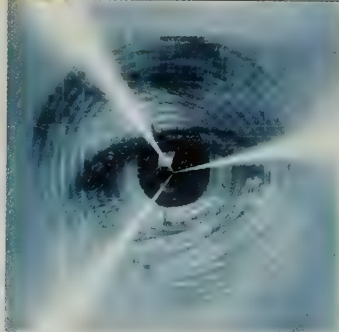
ore-based logistics company.

The Department of Homeland Security recently hired 270 more Customs inspectors, a 1% increase, and will equip them with \$45 million worth of high-tech gear that can scan for explosives, weapons and biological and chemical agents through the closed door of a container. Even the bad guys find clever ways to hide or disguise their weapons.

The twin ports of Seattle and Tacoma are living by the new standards. Last summer the ports netted a new Coast Guard patrol team, with 106 officers and six high-speed boats. Tacoma's Customs office got a \$1 million drive-through machine to detect radiation. But less than 3% of the 1.6 million containers that will arrive this year will pass through the screener. Boosting security to the safest level could take \$100 million for the two ports.

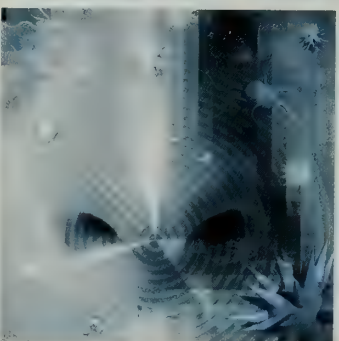
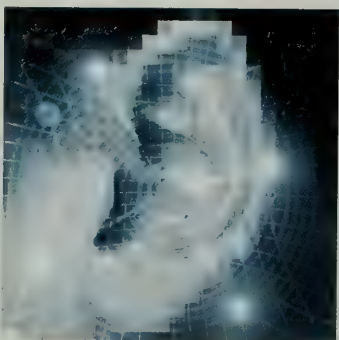
The cost of all the new paperwork and scanning will fall on exporters and their U.S. customers. Last month APL proposed a \$30-per-document surcharge when customers send in a bill of lading by fax, \$10 for electronic filing. Kevin Sheets, head of the customs department at General Motors, says security issues will suck up 70% of his time, plus that of his full-time employees. CNF's Sheets has trimmed his security budget by 20% in the past year, imposing a surcharge to pay for things like employee picture-ID swipe cards and a GPS tracking system for his fleet of wheelers. Get out your checkbook. **F**

CORBIS, JOE RAEDLE / GETTY IMAGES



Sharpening Our Senses

The Department of Homeland Security is combing the world for new sensor technologies and will soon launch a Web site to track thousands of vendor solicitations. Some of these tech breakthroughs may smack of Big Brother, but if they work, they surely will slow down evildoers. BY CHRISTOPHER HELMAN



Sight

The surveillance camera has gotten slicker. March Networks, a Canadian company owned by billionaire Terry Matthews, has installed 500 new digital cameras in branches and offices of Chicago's Bank One. Triggered by motion sensors, they record everything that happens at speeds ranging from a jerky 4 frames per second at, say, an ATM, to an incredible 240 frames per second for superfine imaging. Using wires or wireless, the cameras can be networked with the Internet, their image-feeds monitored by wireless PDAs. The cameras dump their footage into nodes that can store 5 trillion bytes of data. They've also been installed by power companies to monitor the electricity grid and soon will go up around water supplies and mass transit systems. The system cost Bank One \$12,000 per branch. If a bank can do it, think what Tom Ridge can do.

Sound

Late last year American Technology Corp. introduced the HyperSonic Sound system, which uses high-frequency sound to create the acoustic equivalent of a laser beam. An operator can speak a message into the device, which converts into inaudible ultrasound. The ultrasound waves interact with the air, creating a second set of ultrasound waves, which in turn combine with the original waves to create an audible signal. The device lets you talk to someone standing in a crowd up to 150 yards away yet be largely inaudible to anyone else. The Navy is installing a related version that can be used as a nonlethal weapon, delivering sound at up to 165 decibels into a terrorist's ear. That is 100 times as loud as a gunshot. The burst would knock him to the ground and could induce migraines, vomiting, even diarrhea. The sound beam, with a range of 500 yards, is good for scaring off pirates or rousting al Qaeda from caves. The Pentagon has bought several devices at more than \$20,000 each.

Smell

Pathogen-sniffing sensors abound, but some that work great in the lab get confused by the great outdoors. Oak Ridge National Laboratory in Tennessee has developed a sensor for the government that can pick out deadly biochemicals amid airborne pollen, mold spores and car exhaust. The unit traps an air sample, heats it to break it down into molecules then passes it through a mass spectrometer to see if it is nerve gas or just ragweed. It's the size of a desktop computer. If that's too big, try Oak Ridge's palm-size (but less accurate) CalSpec, which can ID a single anthrax spore in 30 milliseconds. Ready in one year. Cost: \$5,000.

Taste

To monitor water supplies for terrorist poisoning, authorities may soon install a novel lab-on-a-chip sensor that can spot trace amounts of toxins in water. An array of E. coli bacteria in microscopic channels of fluid react upon contact with certain toxic chemicals by emitting potassium. The potassium triggers fluorescence in the bacteria, which registers on a photosensor, letting security personnel know whether a poison is in the water. A prototype was developed at Virginia Tech and should be commercialized in 12 months. \$2,000 for hardware; \$10 a chip.

Touch

In a few years fingerprint sensors could be as ubiquitous as doorknobs. A rugged optical print-scanning system developed by BioMetric Solutions has been deployed in security-conscious locations like Chicago's O'Hare airport, schools, hospitals, prisons, government offices and fancy residences. Called Hydra, the system can hold encrypted files with 3-D images of 10,000 prints in a network of up to 32 scanners and can be set to admit certain people only at specific times. \$1,000 per door.

CANALI



WHEN MARRIOTT International opened its 269-room hotel in Caracas, Venezuela last July, it couldn't have anticipated that the country's economic crisis would soon erupt into all-out class war. Undeterred, the company pushed ahead with its plans in the Mideast despite the prospect of war there. In October it opened a new hotel in the Jordan Valley outside Amman, Jordan, and in January it took over a hotel in Kuwait City.

While terrorism, war and political unrest have hampered the travel and leisure industry, they sure haven't stopped big hotel operators from developing properties abroad, even in hotspots. That's because there's little to lose—they rarely put up any money to build the new properties. The new Four Seasons going up in Saudi Arabia is being funded by Saudi Prince Alwaleed bin Talal, a nephew of King Fahd and owner of 14 other hotels in the Middle East. The hotel operators collect management fees, typically 3% to 5% of the revenue, plus franchise fees, which can run another 5% to 11%. Though it might briefly tarnish its image, a sinking hotel barely registers a blip in a company's quarterly earnings report.

Not only does diversifying minimize risk, but in some cases war can even be good for business. Marriott's hotel in Islamabad,

What, Me Worry?

War and political turmoil can't stop a big hotel chain from expanding. **BY EMILY LAMBERT**



A U.S. Marine in the Hilton Hotel, south of Kuwait City.

Pakistan—nicknamed “Journalistan”—was packed with Westerners during the Afghanistan war. Hyatt International, which just opened a 674-room Grand Hyatt in Dubai, the chain's second property in that city, is negotiating to manage a luxury hotel in Kabul. “There's a tremendous demand for quality hotel rooms in Kabul,” says Jack G. Kerr, Hyatt's senior vice president of development.

The Middle East is especially hot, though many of these projects were planned a few years ago. Starwood, already in Syria and Lebanon, just opened a Sheraton in

Amman, Jordan. Ramada opened its first hotel in Saudi Arabia last year, and SAS Group, owner of Radisson hotels, is developing properties in Saudi Arabia and the United Arab Emirates.

How do these properties fare? A survey by Deloitte & Touche showed occupancy rates in Mideast hotels last year to be between 33% (Jerusalem) and 78% (Dubai). By contrast, London posted 75% and Tokyo, 81%. Last year the Méri-dien Com-modore, a five-star hotel in Beirut, had a 62% occupancy rate for its 204 rooms. Reservation manager Farid Alawar says occupancy in the high season (July and August) reached 96%.

No doubt the big hoteliers are already contemplating plans for a Hotel Baghdad.

Peace Dividend

Nothing is certain in war—or its aftermath. But businesses such as these in Iraq's neighborhood could get a lift, if things turn out well. **BY ANDREW T. GILLIES**

Company/industry	Country	Recent price	Price/sales	Market value (\$mil)
Arab Bank Group/bank	Jordan	\$262.16	1.4	\$2,307
Blue Square/food retailer	Israel	7.95	0.3	305
Elbit Systems/defense	Israel	16.30	0.8	632
MobiNil/wireless	Egypt	5.70	1.5	570
Suez Cement/construction materials	Egypt	6.38	1.9	378
Taro Pharmaceutical/drugs	Israel	36.11	4.9	1,037
Teva Pharmaceutical/drugs	Israel	39.91	4.2	10,504
Turkcell Iletisim Hizmetleri/wireless	Turkey	11.90	1.4	2,513

Prices as of Mar. 20. All listed on U.S. exchanges, except those in Jordan and Egypt. Source: Mulfex, Worldscope and FT Interactive Data via FactSet Research Systems.

Sometimes it pays to search troubled regions for investment ideas. Last year, for example, with Israel suffering through suicide bombings and a deteriorating political situation, we suggested a few Israeli technology firms (FORBES, July 22, 2002). At last check that portfolio was up 33%, versus the S&P 500's 10% decline.

“I think you do need to be a contrarian on the geopolitics to a certain extent,” says Christopher D. Alderson, head of emerging-market equities with T. Rowe Price. Alderson notes how Turkey's reluctance to contribute to the U.S. military effort, which led to the country's failure to win an aid package, has hurt its financial markets. As such, Alderson says, some Turkish stocks, like NYSE-listed Turkcell Iletisim Hizmetleri, have begun to look attractive. Driven down by concerns about the finances of a big shareholder, Turkcell has a price-to-sales multiple of 1.4.

What about Israel? With Iraq out of the way, the Bush Administration will be more likely to prioritize resolving the Israeli-Palestinian conflict. David Cooley, who manages J. & W. Seligman & Co.'s Global Growth Fund, favors Teva Pharmaceutical, which sells for 27 times trailing earnings, versus 36 for rival Forest Laboratories.



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Creative Financing

In 1999 Ford Motor Credit had an A+ rating. Now it's down to BBB. But the wheels are still on the car. **BY JONATHAN FAHEY**

THE OUTLOOK COULD HARDLY BE BLEAKER FOR FORD MOTOR. THE company lost \$6.5 billion in the last two years, even as car sales were strong. Its pension fund is \$15.6 billion short. Car sales are slumping. But the financiers at Ford have pulled off some remarkably supple moves to keep the chassis lubed, for the time being anyway. "I'm kissing the sweet earth that we've been able to have the flexibility we do," says David Cosper, Ford Motor Credit's chief financial officer.

Ford Credit, which lends money to dealers and drivers, earned \$1.4 billion last year while Ford's automotive side had a \$539 million operating loss. Were Ford Credit a bank, it would be the nation's 10th biggest, with \$170 billion in assets.

But it isn't, and that is the rub. Banks can raise money more easily than manufacturers because they don't have manufacturing divisions that periodically tank, like Ford's, and scare the bejesus out of investors.

When Ford's bond rating was cut again last fall, to two notches above junk (S&P ranks Ford Motor and Ford Credit the same), its access to cheap, short-term unsecured commercial paper was all but cut off. In 2000 Ford Credit had \$42 billion of that kind of debt; at the end of last year, only \$4 billion.

Ford Credit had to get creative to fill the gap. It cut back on loans and started a program last spring that offers small-increment bonds to retail investors. It attracts \$100 million per week. Last fall Ford sold \$5 billion worth of loans. It plans to sell another \$2 billion soon.

The big help has come from selling asset-backed securities, bunches of loans backed by assets like car loans. In two years Ford's asset-backed liabilities jumped from \$24 billion to \$53 billion. And it has been clever: Traditionally, Ford sold retail car loans into the asset-backed market. Last year it began bundling faster-turning dealer loans.

Even the company's critics offer praise. Sean Egan, of rating agency Egan-Jones, rates Ford's credit as junk. "Under the circumstances the finance team has done very, very well," he admits.

Well enough to offset continuing problems? A turnaround for the auto business seems distant. And some of Ford's funding alternatives may not last forever.

Lassoing the Mustang

Ford Credit used to extend loans to people buying even competitors' cars. By cutting back to Ford's brands, it has reduced borrowing needs.

2001: \$60 billion

2002: \$31 billion

2003: \$19-\$25 billion

Ford Chief Bill Ford Jr.

The retail bond program stalled in March with Egan's comments.

In the short term Ford Credit is liquid, with \$12 billion more in receivables than debt coming due. But the finance side has more tiptoeing to do before auto sales come to the rescue.

FORE!-BODING

For the slumping \$3 billion golf-equipment industry, any publicity is good publicity. Witness the recent controversy in which professional golfer Phil Mickelson sniped at the quality of Tiger Woods' Nike clubs—and Nike promptly responded with TV ads of Tiger touting its equipment.

Selling golf to the 26 million folks who play at least once a year has gotten rough. Despite the surge in TV ratings, sales of clubs and balls are stagnant, reflecting the drop in rounds played, estimates Golf Datatech. The industry has tried goose sales, from tweaking the lofts of iron



The screen that helps you pick the right clubs.

faces—to make golfers think they're hitting farther—to crafting high-tech shafts and heads

Now product cycles are shrinking—from one every three or four years to less than a year. Titleist upgraded its popular driver in 2001 and twice more in 2002, each time adding volume to the head. Two new models, one a \$500 bomber with a 365-cubic-centimeter head, are due out this month. Competitors Callaway and Taylor Made are on similar cycles. To push pricier clubs, Callaway this year applied auto-industry tactics by offering trade-ins on used clubs. "The whole sales model is very screwy," says Arlen Bento of the Professional Golf Clubfitting Association.

Hence the latest sales tool: computer launch monitor systems that promise to help a customer pick the right clubs for his swing. Today nearly 300 pro shops and specialty retailers have them paying from \$5,000 to \$25,000 each, according to *Golf Digest*. As customers whack balls, lasers capture things like clubhead speed, swing path and ball-spin rate, then zap snapshots to a computer. Alas, this rocket science does not fix flawed swings—or guarantee a return for the retailer.

—Brett Nels

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Eye of the Storm

Despite the whiplash of an imminent takeover battle, Roxanne Austin is turning DirecTV into a solid business.

BY DOROTHY POMERANTZ

WHEN ROXANNE AUSTIN WAS promoted to president of DirecTV in June of 2001, she asked her bosses for one key thing: Please leave her out of all merger talks. She didn't want to be distracted by news of Rupert Murdoch's News Corp. and EchoStar fighting over her company.

"I said, 'I'm going to forget I can spell the word "merger." I'm going to focus solely on this business' performance,'" Austin says. That is paying off, even as suitors line up to buy the shop out from under her. DirecTV, owned by General Motors' Hughes Electronics unit, added 980,000 subscribers last year to hit the 11 million mark, making it second only to Comcast. Its revenue grew 16% last year to \$6.4 billion, and earnings before interest and taxes jumped to \$249 million, up from a loss of \$175 million in 2001.

That has kept the dogs howling for a piece of DirecTV, especially since a \$28 billion merger with EchoStar—set three months after Austin became president—was quashed by regulators in December. Murdoch is raising \$1.5 billion in a bond

Undaunted: Austin keeps DirecTV going.

improvements in your performance during tremendous uncertainty."

One of her first moves was to lay off 10% of the work force and chop payroll costs by 25%. She shuffled executives into new jobs to create new energy. She gave Robert Meyers, then chief financial officer, 30 days to work up a plan on how to improve service—then made him head of customer satisfaction to execute it.

Austin also renegotiated contracts. A

she threatened to drop it unless it backs off.

Now DirecTV is tackling growth, which peaked at 1.5 million new customers in 2000. Next year it launches its eighth satellite, expanding local-channel coverage to 90 million homes in 100 markets, up from 72 million homes in 52. A rapid-response team parachutes into neighborhoods where cable stumbles. When Cablevision blacked out Yankees games on Long Island in a since-resolved fight with the YES Network

"I said I'm going to forget I can spell the word merger."

sale and could bid again for DirecTV. So could John Malone and SBC.

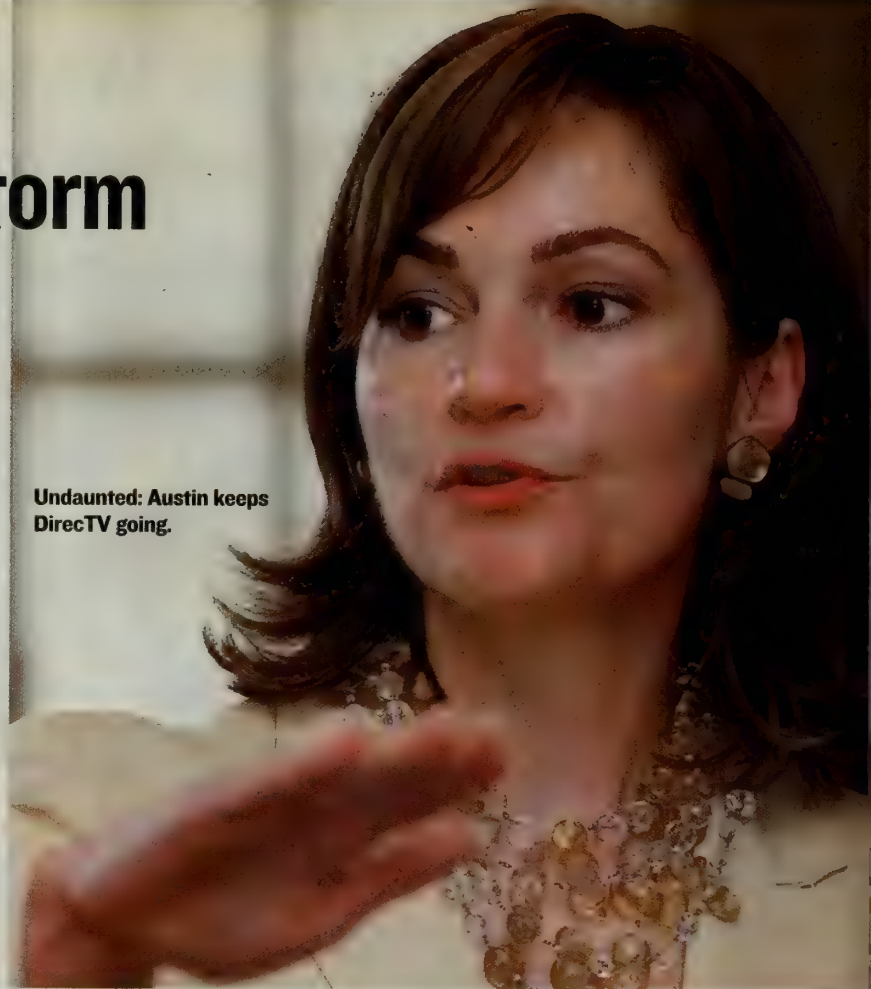
Instead of worrying about all that, Austin, 42, has been cutting costs and overhauling management when others might have sat idle. She had worked on mergers for eight years at Deloitte & Touche before joining Hughes in 1993. "I know what it's like" [to endure a merger], says Austin, who, with her fishnet stockings and diamond-studded cross, looks more Madonna than management. "You think, 'What does this mean for me?'" The goal is to "show material, tangible

new pact with DirecTV's billing-technology providers will save \$50 million a year starting in 2004. Austin has opened some call-center operations in India to squeeze out similar savings. She hit up retailers. New viewers sign a one-year commitment. If they quit early, it comes out of the retailer's cut. "We wanted our retailers to be in the same bed with us," she says.

Programmers, driving 46% of costs, are another target. CNN, TNT and other channels sought double-digit increases, but Austin held them to just 5%. Disney's ABC Family wants a 35% bump; last month

DirecTV swooped in and almost tripled local subs by playing up the spat in ads and hanging flyers on customers' doorknobs.

Yet investors are lukewarm. The stock is at \$10, down 40% in a year. Some 19% of its customers quit last year. Its subscriber-acquisition cost, at \$540 a head, could jump to \$585 this year, versus \$421 at EchoStar. This doesn't faze Roxanne Austin—who may not even have a job once DirecTV's fate is set. "It's not easy," she says. "But as long as you stay focused it's a tremendous challenge—and a tremendous opportunity."



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Conceal and Delay

That's how Spiegel held off bankruptcy for more than a year. BY MARK TATGE



William Kosturos

SPIEGEL GROUP'S bankruptcy last month offers an important lesson to other poorly managed companies: Hold off filing any damning financial statements until the very last minute. The Securities & Exchange Commission will probably just sit on its hands.

The retailer, a year late reporting 2001 results, swatted the SEC away with excuses about renegotiating terms with lenders whose covenants it had violated. It failed to report "substantial doubt" in early 2002 from its auditor, KPMG, about Spiegel's ability to remain a going concern. The ugly truth came out when Spiegel finally filed its 2001 10-K on Feb. 4, 2003: losses of \$587 million on a 9% sales drop; working capital of negative \$436 million.

The SEC had plenty of warning last year. Bankers choked off new loans. Federal regulators ordered the company to sell or shut its moneylosing credit card unit. Nasdaq delisted the retailer. By the time interim Chief Executive William Kosturos took over Spiegel in March 2003, there wasn't much he could do.

"We acted as quickly as we could when the real facts came

Junior Delinquents

Pickers compared with Spiegel, these troubled companies still bear watching. They have all missed filing deadlines for 10-Ks.

—Erin Killian

Company Business Bad news	2001 Results		Announced filing delay
	Profit/loss	Revenues	
Audiovox Automotive electronics Company in violation of lending agreements, renegotiating covenants.	-\$8.2 mil	\$1.3 bil	2/25/03
Imperial Petroleum Recovery Oil and gas Negative working capital of \$2.6 billion; chief executive steps down; selloff of assets; stock trading on o-t-c bulletin board at 27 cents.	-\$2.4 mil	\$508 mil	1/30/03
Ariba Software Restatement of earnings due to \$10 million payment by chairman to president; class action after Ariba sold shares before payment news leaked.	-\$2.7 bil	\$409 mil	12/30/02
Holiday RV Superstores Retailer of RVs and boats Stock delisted; problems with major lender; doubts as to continuing as "going concern."	-\$18 mil	\$134 mil	1/30/03
Medi-Hut Medical equipment Nasdaq threatens to delist stock; FBI raids company's Wall Township, N.J. headquarters in November, confiscates key financial documents.	\$52 mil	\$12.9 mil	1/30/03

Sources: Companies' filings with the SEC.

about," says Peter K.M. Chan, assistant regional director in Chicago for the SEC, which has filed civil fraud charges against Spiegel. Not quick enough for creditors left holding \$1.7 billion in debt—not to mention \$2.2 billion in securities backed by credit-card receivables.

DIGITAL DOOLITTLE



This August American dog owners will finally get their hands on the gadget that's made the Japanese sit up and beg: Takara's canine-to-human translator. Since September the eccentric Japanese toy company has sold 300,000 Bowlinguals, a collar-worn dog radio that converts barks and growls into 200 phrases and pictures through a handheld monitor.

Takara had animal behaviorists and acoustics researchers parse 2,000 woofs from 80 breeds to identify when a dog is happy, sad, frustrated, needy or angry. The receiver also lets you know what different wags and ear angles mean. (A fake bark from a reporter produced a picture of a needy dog face with "let's play" written below it.) The device also provides daily graphs of a pooch's emotional highs and lows, on an emotion scale ranging from 0 to 100.

The \$100 Bowlingual has been a hit in gadget-crazed Japan, which has 12 million dogs and a good number of underemployed dog owners with a little too much time on their hands. In the U.S., with a dog population of 67 million, Takara hopes to sell 1 million units between August and March 2004.

A secret Takara laboratory is now working on decoding the secret language of birds, cats, fish and plants by using sensors to equate movement and temperature changes to emotional or physiological fluctuations. Presumably we will soon know whether plants really like classical music.

—Benjamin Fulford

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Back to Junk

Marketers are using your e-mail address to fill both your mailbox and your in-box. BY DAVID WHELAN

DIANNE BINFORD DECIDED TO SPREAD SOME HOLIDAY CHEER THIS past shopping season. Binford, director of consumer marketing for Nine West Group, planned to mail \$20 gift certificates to 20,000 of the shoe-seller's best customers. But Binford had no home address, only an e-mail address, for 7,000 of them.

Binford would have pleased a lot more customers had she turned to a new technology called reverse e-mail append, offered by the likes of Yesmail, a Chicago-based marketing outfit that can cross-reference an e-mail with a postal address for 25 cents a match. It's not a perfect system yet: Yesmail estimated it could have found about 1,200 of those 7,000 postal addresses. Now Binford is handing over Nine West's entire e-mail list of more than 200,000 names for Yesmail to get postal addresses. Binford can then sort them by zip code and blast out postcards, advertising local sales.

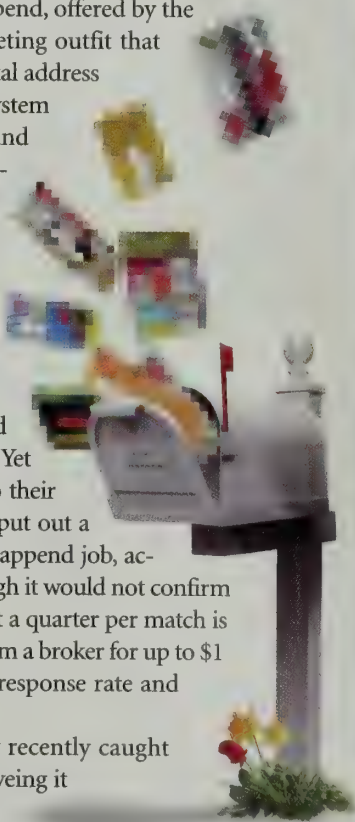
Reverse appending seems like a technological regression—weren't targeted e-mails supposed to supplant junk mail? Yet many companies have begun to add it to their direct-marketing arsenal. Yahoo recently put out a request for a proposal for a huge reverse-append job, according to vendors competing for it, though it would not confirm details. Converting your own e-mail list at a quarter per match is a lot cheaper than renting a generic list from a broker for up to \$1 per name. Snail-spam still has a higher response rate and lower annoyance factor than e-spam.

Privacy watchdog groups have only recently caught wind of reverse appending, but they're eyeing it warily. "Many people have online personae they like to keep separate from their offline ones, and this merges the two without permission," says John Mozena of the Coalition Against Unsolicited Commercial E-mail. He admits, though, that the practice is a bit more palatable than electronic spam because, at the very least, the recipients don't bear the cost.

Yesmail, Naviant and about a dozen other vendors offer the service using either in-house data or by accessing giant lists owned by InfoUSA and Experian. Yesmail, which was bought by InfoUSA in late February, has built up an e-mail/postal master file with 12 million records.

Last November Ebags.com, a Greenwood Village, Colo.-based online retailer, sent out 250,000 print catalogs for the first time. Customers who received both e-mail offers and a catalog were 61% more likely to buy than those who just received e-mail, says Peter Cobb, Ebags' cofounder and marketing chief. The same customers also spent \$77 on average, 10% more than those who just got e-mail. Ebags plan to send out more catalogs this spring with reverse append help from Opus Interactive in Arvada, Colo.

F



Drive-By Shooting

The gadflies will be swarming again this proxy season, haranguing public companies about sweatshops and abortion rights. One place you'd least expect to find them waging a proxy fight is at the AAA, those trusted folks who jump-start your dead battery and hand out TripTiks.

But the not-for-profit Automobile Club of Southern California is no ordinary AAA. The nation's largest regional AAA, with 6.2 million members and \$2.7 billion in revenues, this Auto Club also owns the AAA clubs in Hawaii, New Mexico and Texas. As stand-alone businesses, its captive travel agency and insurance subsidiary would rank among the biggest in the country. The auto and homeowners insurance business is so successful that it has accumulated a capital surplus of \$1.8 billion, a honey pot that has attracted the wrath of dissidents who want the money put to better use or distributed among members.

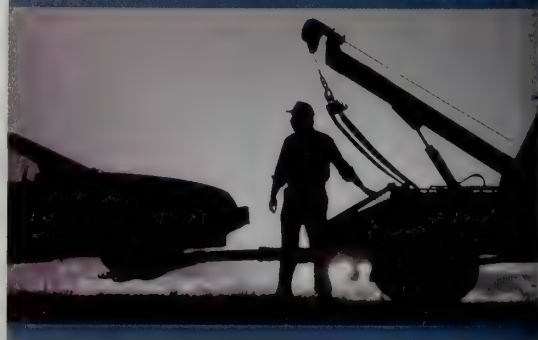
"What they're doing this year is treating us the way Saddam Hussein treats the United Nations and U.N. inspectors," seethes Thomas Bourke, a Los Angeles attorney running for one of four contested seats on the Auto Club's 12-member board.

With allegations of Enron-like accounting mischief, Bourke and his fellow dissidents have gleefully exposed the Auto Club's opaque financials and accused the existing directors and management of playing dirty politics and spending \$6 million of member dues to preserve their seats in the last disputed election.

The club is less threatened by Bourke and the gadflies than it is annoyed by their antics, which include publicizing various sexual harassment and overtime lawsuits that have been filed against the AAA. A judge has already tossed out the bulk of the allegations made in yet another lawsuit filed by two dissidents from the prior election.

"I'm the biggest crook that ever lived," sighs the Auto Club's chief executive officer, Thomas McKernan Jr., sarcastically referring to the mud that's been slung. "I'm up there with [Enron's] Ken Lay."

—Seth Lubove



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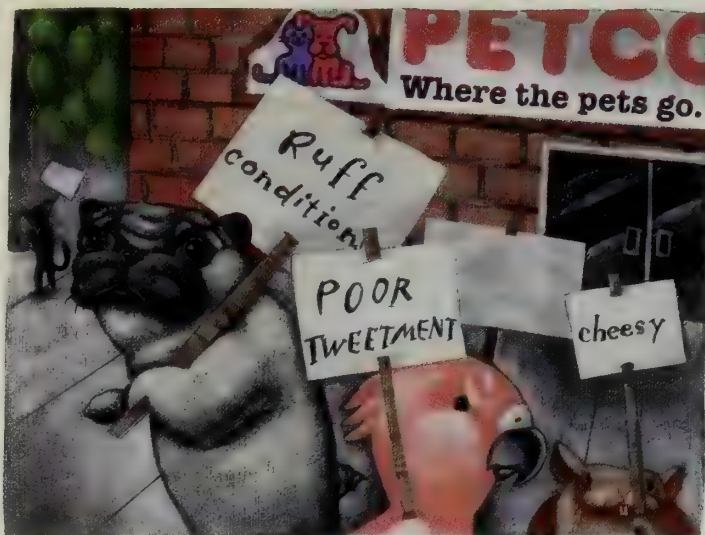


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Some Rat Shorted the Stock

Petco, the national pet store chain that advertises its humanity for animals, has been embroiled in at least four recent court-related matters in western states charging animal cruelty or neglect. Among the claims: keeping sick and dying animals in a freezer, cooking toads to death, starving rats and selling sick birds. Employees tell of other questionable situations. San Diego-based Petco denies wrongdoing; it settled two lawsuits. Riled-up animal rights activists have already staged a store protest in Boston. Meanwhile, Petco's share price has dropped 20% in four months to \$20.

—Matthew Swibel

The Lion's Roar Isn't What It Used to Be

Metro-Goldwyn-Mayer could lose significant cable and satellite royalties because the U.S. Copyright Office received its application two days late. In a U.S. Court of Federal Claims lawsuit—just filed by Clinton lawyer David E. Kendall—MGM says its postage meter shows the form was mailed on time, but the feds say a Postal Service receipt is needed as proof. A movie trade group had warned members that the Copyright Office was “drop dead strict” on deadlines.

—Janet Novack

Union Members: Don't Read This

A National Bureau of Economic Research study suggests the 2000 Firestone tire debacle was caused not so much by use of cheaper materials or inexperienced replacement workers during labor strife as by something about the regular workers themselves. Princeton University economists Alan Krueger and Alexandre Mas conclude that tires made at Firestone's Decatur, Ill. plant just before and after unhappy workers staged a strike suffered extraordinary failure rates. The researchers suggest more safety checks around walkouts. Some 14 million tires were recalled amid links to 271 deaths and more than 800 injuries.

—Ira Carnahan

History Is Cheap

For sale in Albuquerque, N.M.: the boarding house at 209 High Street N.E. where, on June 3, 1945, Soviet spy Harry Gold paid \$500 for handwritten plans about the soon-to-be-detonated atomic bomb under development at Los Alamos. The money went to David Greenglass, whose sister, Ethel Rosenberg, was married to Julius Rosenberg. The Rosenbergs were executed for espionage in 1953. Asking price for the 91-year-old, 5-bedroom building and guest house, in an edgy part of downtown: \$259,900. The listing sheet breathlessly cites the “spy secrets” link.

—William P. Barrett

That C Is Changing to Capitalist

In Beijing the U.S. ad agency Ogilvy & Mather has hired the government-sanctioned Communist Youth League of China to hand out soap samples and conduct customer surveys for multinational firms seeking a foothold behind the Great Wall. A unit of WPP Group, Ogilvy won't say what it's paying the 81-year-old CYL, which is described as officially subscribing to Marxist-Leninist thought and seeking “eventual realization” of Communism. “Our hands and feet,” an Ogilvy exec says admiringly of the venerable, 60-million-plus member CYL.

—Robyn Meredith

Gotta Watch the Fine Print

Something calling itself the Anti Lawyer Party, with purported chapters in Kenosha, Wis. and Lewes, Del., has a Web page condemning “the international conspiracy of the lawyers to destroy the United States from within.” But the bottom of the bombast-laden display carries this disclaimer: “We do not give or sell legal advice. For that one must retain a lawyer.”

—J.N.

If the CEO Wants New Scenery, Buy the Stock (Most of the Time)

Public companies recently relocating corporate headquarters have generally outperformed the market.

—Carrie Coolidge

COMPANY/YEAR	RELOCATION	PERFORMANCE VERSUS MARKET
Ball/1998	Muncie, Ind. to Denver	354
Willbros Group/2000	Tulsa to Houston	298
Harrah's Ent./1999	Memphis to Las Vegas	273
Knight Ridder/1998	Miami to San Jose, Calif.	158
First Data/2001	Atlanta to Greenwood Vil., Colo.	152
World Airways/2001	Dulles, Va. to Atlanta	112
Bank One/1998	Columbus, Ohio to Chicago	104
Boeing/2001	Seattle to Chicago	70
Gateway/1998	N. Sioux City, S.D. to San Diego	11

*Recent value of \$100 invested in company on move date divided by value of \$1 invested in the S&P 500. 100 means stock performance matched market.

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can lead to a sizeable increase in profits.
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Subaru to Merrill Lynch, trust Pitney Bowes



Pitney Bowes

Engineering the flow of communication

Toyota has set itself a mighty growth goal while whipping up yet another low-cost way to build cars and trucks. This is not good for the Big Three.

BY ROBYN MEREDITH
WITH JONATHAN FAHEY

TOYOTA WILL SOON ANNOUNCE that it has made more profits in a single year than any automaker in the last decade—\$12 billion. The U.S. delivered 80% of those profits, at a time when the Big Three are struggling for scraps. While Toyota powered to an estimated 8.3% operating margin, on its revenue of \$143 billion, Ford lost \$1 billion, giant GM scraped and clawed to a 1.5% margin, and Chrysler lost market share. All this is reflected perhaps most compellingly in the companies' valuations: Toyota's market capitalization of \$84.3 billion is bigger than those of General Motors, Ford and DaimlerChrysler combined.

"In a lackluster time Toyota has gone to record levels of profitability," says Stephen C. Usher, an analyst at J.P. Morgan Chase in Tokyo. "And now it is getting serious." Meaning serious trouble for those Big Three competitors. In the next decade Toyota wants to expand its share of the worldwide auto market by nearly half, to 15%. That would exceed



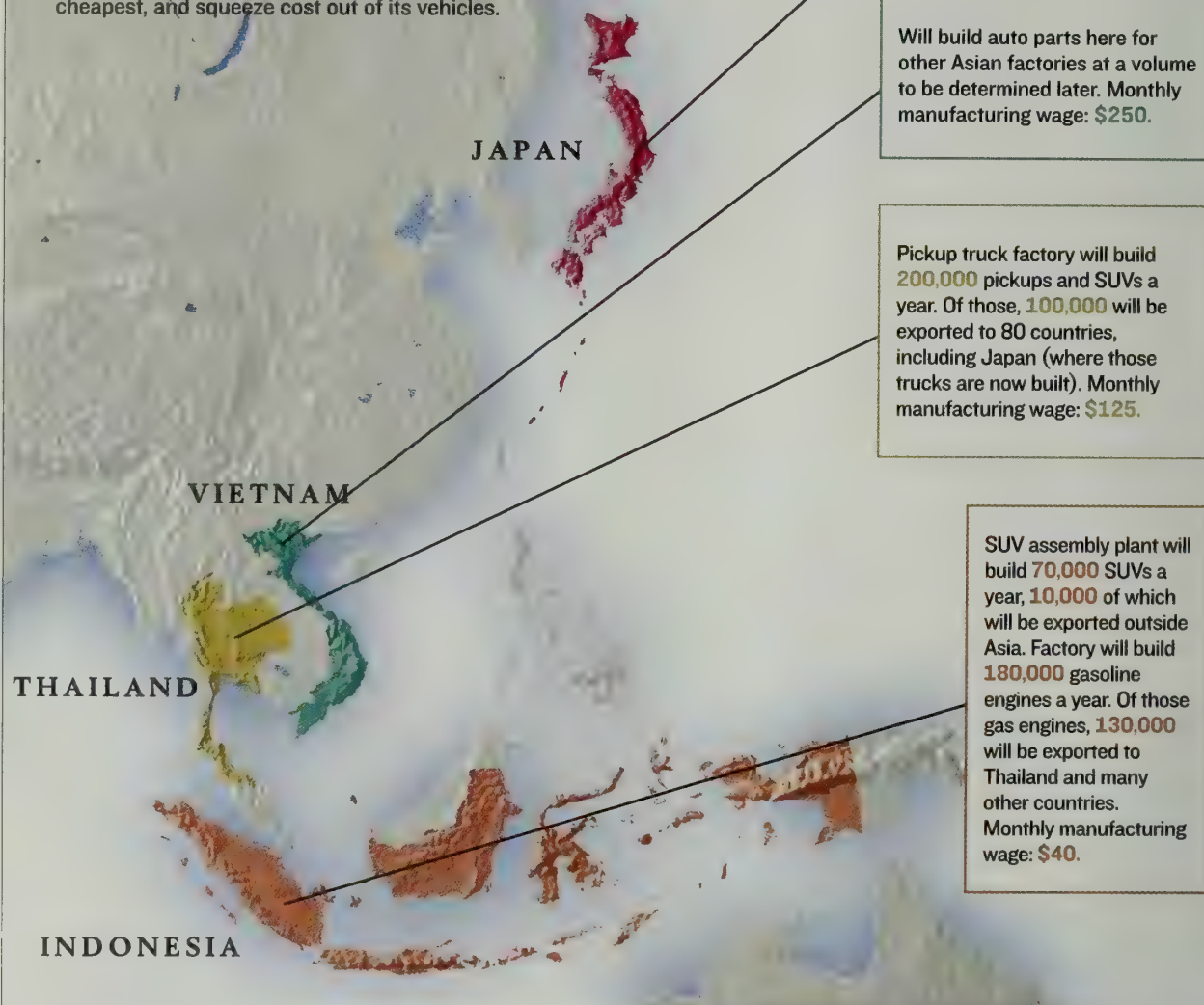
The "Ooof" Company

Rare air: Fujio Cho, Toyota's unassuming chief, is making his company fly as competition crawls.



Home Is Where The Plant Is

Using factories throughout Asia, and logistical muscle, Toyota will source parts where they are cheapest, and squeeze cost out of its vehicles.



General Motors' global share of 14.2%, now the largest, followed by Ford.

Is that sweat gathering on Detroit's collective forehead? When Toyota sets a goal, it exceeds it. What should make competitors even more nervous is how Toyota is doing it. It is instilling a sense of crisis among employees by invoking the specter of intense competition from China. It is telling workers to cut costs by 50% to thwart that threat. And to help meet that goal, this master of lean manufacturing is experimenting with a new cost-saving factory setup that it

hopes to deploy around the world—while competitors are just now catching up with its last-generation manufacturing innovations.

"Toyota is a car company that challenges itself in a way that makes the world shudder," says Maryann Keller, a consultant and author of two books on the auto industry. "Toyota announces it is shooting for 15% of the global market and 50% cost cuts, and everyone goes 'Ooof!' It's like getting hit in the solar plexus."

Among Toyota's competitors there

is admiration mixed with the fear. "There are few areas where you don't hit Toyota as a benchmark," says Dieter Zetsche, Chrysler's chief executive. Rivals refuse to scoff at Toyota's market share goal. "I wouldn't say they won't make it," says John F. Smith Jr., chairman of General Motors. "Toyota is an excellent company. They are very focused on what they do and they do it well, and that's what makes them great."

Those encomiums aside, Toyota's goal is, of course, daunting. It would need to sell 2.7 million more new cars:

ear, on top of the 6 million it now sells. That means adding about 18 factories with 36,000 workers—in an industry cluttered with underused auto plants. With a stagnant home market Toyota needs to grow everywhere else. That's why it's going after markets where it's the underdog—trucks in the U.S., small cars in Europe and big pieces of emerging markets around the world. In North America it is aiming to go from 10.4% to 12.5% of the market by 2005, and in China from 2.3% to 10% by 2010.

Leading the charge is Toyota President Fujio Cho, who runs the company's day-to-day operations. He's self-deprecating and friendly, and seems unassuming because of his big freckles and ready smile. He takes the train between his offices in Toyota City and Tokyo, and wears unfashionable boxy glasses. He's the first to admit he prefers to wear not a suit and tie but a factory uniform, which he wore most days during his first 20 years at the company. He is no show-leader. Rather, he is someone who can be counted on. That's one of the attributes that draws customers to the cars.

Toyota itself is in many ways an unlikely leader in the business world. It is never too proud to imitate competitors' successful moves, but it often does them one better. It most recently copycatted Honda's launch of new models in Japan: Honda's Stream minivan was matched by Toyota's Wish, its Step Wagon by Toyota's Voxy and Noah small minivans, and the Fit compact by Toyota's Itz. When Nissan said it could cut 20% of its costs during its turnaround effort, Toyota set a goal of cutting 30%.

Seemingly without sweat it eliminated \$1.5 billion in costs during the fiscal year ending Mar. 21, NikkoSalomonSmith-Barney estimates.

Cost-cutting is the name of the game in an industry with too much capacity. The Big Three American automakers

have cut costs by outsourcing high-wage union jobs to parts suppliers as unionized workers retire. After Nissan crashed, one way Chief Executive Carlos Ghosn brought it back was to unwind the company's *keiretsu* relationships of interlinking ownership with its parts suppliers. When Chrysler skidded into the red, it required suppliers to share the pain by accepting 15% price cuts over three years.

Yet other automakers can't come close to Toyota on how much it costs to build cars. In the December quarter Toyota earned \$1,800 for every vehicle sold, GM made \$300 and Ford lost \$240, according to ING Securities.

Toyota cut costs the Toyota way. "They're not big ax-wielding, restructuring, factory-closing types," says Kurt

processes, for instance. Toyota zeroed in on 174 key components, such as air bags, fuel pumps and brake systems.

But to Toyota, reaching its ambitious 30% goal was "Mada, mada," or not yet enough. The threat: China. "We see right next door a country which is highly competitive with a low labor cost, so we can't just sit back and relax," says Cho. "We need to do everything we can to reduce costs further."

How to get there? Toyota is thinking it's going to take a fresh way of building cars and trucks. Which explains why companies worldwide will be watching Toyota's experiment with a new manufacturing approach in emerging markets. Toyota calls it the International Multipurpose Vehicle project, and in another first, it will be run mostly out

Lexus' next SUV.



"Toyota challenges itself in a way that makes the world shudder. It's like getting hit in the solar plexus."

Sanger, a Tokyo-based analyst at ING. Instead Toyota kept its *keiretsu* so it could count on getting first crack at its best inventions but leaned on suppliers' engineers for suggestions on how to cut their own costs—by using cheaper materials or changing manufacturing

of Singapore, not Toyota City.

Toyota wants to build vehicles more the way Nike assembles its shoes—with the soles made in one country, cloth uppers cut in a nearby country, all stitched together in a third country. Toyota is in search of the most efficient—



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Late Bloomer

About the time Henry Ford built his first car, the quadricycle, in 1896, eccentric Japanese inventor Sakichi Toyoda, 29, invented his first—weaving loom. Toyoda and his son Kiichiro licensed the foreign patent rights to a British company for \$60 million and used the money to enter the car business in 1934.

In 1959 Toyota's Motomachi factory became Japan's first full-scale car assembly plant. The size of 35 baseball fields, it is one of a dozen Toyota factories scattered around company town Toyota City.

The factory offers a walk through car-manufacturing history, much of which Toyota has written, and whose successful methods the world's automakers—and other manufacturers—have rushed to adopt. Pink-and-green rubber flaps hang on the freshly painted cars to guard against scratches, one of hundreds of thousands of ideas factory workers continually submit to improve Toyota, and one that is now a common feature in car factories worldwide.

There is the rope hanging above the assembly line. A worker can pull it like a bus stop request if there's a quality problem he can't fix quickly. A tug on the rope causes music to play and lights up a number on the electric billboard overhead, showing managers where a worker needs help.

It is hard to overstate how revolutionary that rope and Andon board were for the auto industry: Allowing a mere blue-collar worker to stop the line would have been heresy in Detroit a few decades ago, as managers were more concerned about keeping up volume than quality. Now most car factories do it the Toyota way.

Another Toyota innovation is within reach of the assembly line: stacks of car parts in plastic bins, neatly sorted in the sequence in which they'll be needed for the mix of cars coming down the assembly line. There are only three to four hours' worth of parts at Motomachi, and shipments arrive every two hours, just in time to keep the line going. That cuts down on inventory and wasted factory space, and this, too, has been widely copied.

—R.M.



A walk through car-manufacturing history: a line at the Motomachi factory.

read: low-cost—regional producer of pieces of the end product, in this case, the 5,000-odd parts it takes to make a car. The new method should allow Toyota to whack at least 25% off the cost of building trucks, says David Cole, president of the Center for Automotive Research at the Altarum Institute in Ann Arbor, Mich.

Toyota is developing two new vehicles from the ground up, a pickup and a sport utility vehicle. The new models, which will first go on sale in 2004, will share basic components. But their interiors and other features will be tailored to local markets.

Here's how Toyota's experiment will work in Asia. Toyota will expand its fac-

tory in Thailand to produce 200,000 pickup trucks and sport utility vehicles a year, half of which will be exported to more than 80 countries, including Japan. Thailand will become the sole global production base for this model pickup. All its components would be built in Thailand, Indonesia, the Philippines, Malaysia, Vietnam and India.

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Hence, both assembly and parts-making for this pickup will be done in low-wage countries. The existing pickup that this overseas venture will replace is now built in Japan. And nearly all parts for the current model are also built in Japan. Thai manufacturing workers earn \$1,500 a year, excluding benefits, 4% of what Japanese workers earn.

The lowering of import barriers across Asia is greasing this plan. The gas engines for the pickups will come from a factory in Indonesia, which will churn out 180,000 a year, of which 130,000 will be exported. Toyota will be able to ship them to Thailand without facing the stiff import duties that would have made this practice too expensive in the past.

Indonesia, in turn, will be building Toyota vehicles, too—70,000 sport utility vehicles a year (some with diesel engines made in Thailand). Of those, 10,000 will be exported outside Asia. And workers in Indonesia make even less—only a third of Thai wages.

The system will be deployed first in Asia, but will soon be used in South Africa and Argentina, too.

Once again, Toyota isn't inventing something. Exporting jobs to low-wage countries like Mexico and China is an old game at General Motors and Ford, through their now-independent parts operations Delphi and Visteon. But the parts suppliers are seldom involved early on in the conception and design of the vehicle.

GM also has a medium-size factory in low-wage Thailand that will build three different vehicles by this summer, exported in small volumes to 19 countries around the world. But GM uses the factory to produce existing models.

Until recent years suppliers in developing countries produced only the lowest-tech components—like wiring harnesses—that could be shipped

elsewhere for assembly. That's because neither quality standards nor know-how was high enough to build more sophisticated parts. But that has changed in many developing countries as globalization has marched along, and that is one reason Toyota's project is now feasible.

Even if it flopped, this expensive experiment would be almost a round-trip error to Toyota. Although its home market has been in the doldrums for a decade, Toyota is loaded with cash—\$34 billion of its \$100 billion in assets are

so big. In the U.S., it has been growing in part because it was able to add more models to its lineup. With recent additions of full-size trucks and SUVs, the lineup is now nearly full. In Japan Toyota has 42% of the market and little room to grow.

Cho is aware of the company's main weakness—its extreme bureaucracy—which is why he is trying to spark a sense of urgency. "We're still very much Japan-centric and yet our business is growing," especially outside Japan, he says. "My concern is that we will start



"My concern is that we will start suffering from that big-company disease, and become complacent."

liquid. Toyota has always stubbornly kept a lot of cash and let investors whine that it should be putting the money to better use.

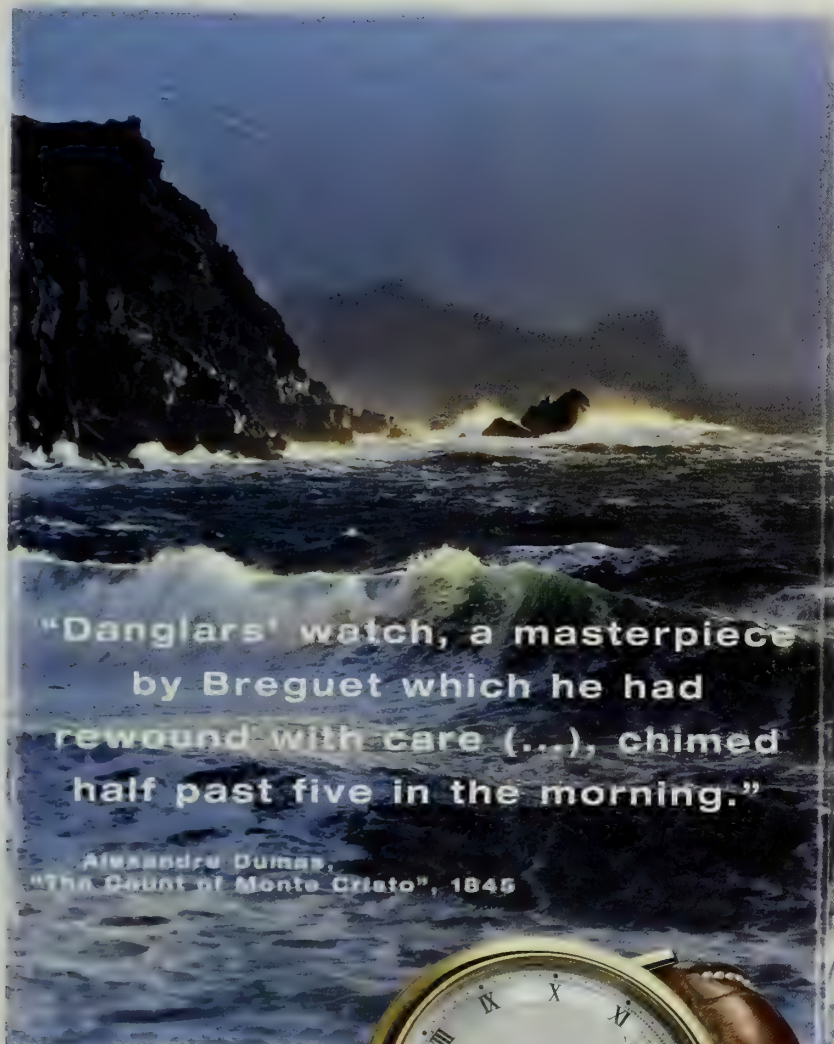
Compare Toyota's strategy with Ford Motor's, when it was sitting on \$26 billion in cash in the summer of 2000. Ford spent half of it in just four quarters on stock buybacks, special dividends and acquisitions, and quickly found itself in a cash crunch.

What's the worst that could happen to Toyota? In the long term the threat is that growth has to slow for a company

suffering from that big-company disease, and become complacent."

When Toyota opens its new truck factory in San Antonio, Tex., Cho will know what to wear. When Toyota announced the deal, he was given a full cowboy getup, each piece a gift from a Texas politician delighted Toyota would add jobs there. "The governor gave me spurs," says Cho with a grin. Seems like he already had them on.

Additional reporting by Benjamin Fulford



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SINCE 1900

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LOS ANGELES SAN JOSE SAN FRANCISCO

BY NATHAN VARDI

IF YOU RUN A PRIVATE COMPANY AND aren't inclined to cash out or go public, there are only a few basic ways to line your pockets. You can pay yourself a fantastic salary or collect a pile of dividends. Larry J. Winget, chief executive and sole shareholder of Fraser, Mich. auto parts supplier Venture Holdings, has found a third way. While he's limited himself to about \$2 million a year in compensation, and bank covenants won't allow him to distribute dividends, he has set up some 40 companies of which he owns most or all of the stock and whose main purpose includes selling goods and services to Venture. By this means he has siphoned off tens of millions of dollars every year—doing it, for the most part, out in the open.

But over the last ten months the scheme has backfired. Venture is in a serious cash crunch, and Winget's lenders, facing losses of nearly \$500 million, are threatening to force his company into bankruptcy. The directors of Venture's largest subsidiary, Germany's Peguform Group, became so disenchanted with Winget's management that they declared this entity insolvent and put it into receivership behind his back last year. "The results have been bad for the banks, bondholders and the auto industry," says Martin King, a Standard & Poor's analyst.

Winget, 60, is now desperately trying to hold on to the com-

pany he cofounded 30 years ago and turned into a \$1.9 billion (sales) supplier of such plastic auto parts as bumpers, air bag covers, sidewall trim and consoles. Along the way he created dozens of companies—from a marketing firm and a golf course to a maker of specialty cars and an engineering outfit—that became increasingly intertwined with Venture, often sharing its corporate address and cash-management system.

"This company should never have

been able to borrow a dime due to its list of affiliated transactions alone," says Nathaniel Hudson, who tracks auto-sector junk bonds at Bank of America. Yet most of these transactions were reported, there for lenders and investors to see. Apparently any nervousness about Venture's financial disposition was mitigated by interest rates as high as 12% on the company's junk bonds. Now, though, at least one of Winget's creditors is suing, alleging that he didn't fully reveal Venture's precarious condition.

The unraveling began sometime after the May 1999 acquisition of Peguform, a German manufacturer of plastic parts, for \$445 million. To finance the deal, a bank syndicate led by Chicago's Bank One wound up lending Venture about \$400 million with interest rates ranging from 5.3% to 8.6%. Adding Peguform doubled Venture's long-term debt to \$852 million, \$455 million of which ended up in the hands of U.S. bondholders like the Goldman Sachs High Yield Fund and Eaton Vance High Income Fund.

Trouble erupted soon after the books closed on 2001. That year Venture eked out earnings of \$1 million but had a negative free cash flow (cash flow from operations minus capital expenditures) of \$14.1 million. Venture only had \$28 million left on its bank credit line.

Where was the cash going? Some to make interest payments—a loan into companies controlled by Winget. Between 1999 and 2001



Auto-Da-Fé

Larry Winget has siphoned off tens of millions from his car parts business, enraging German automakers and U.S. creditors. Now they're about to suck him dry.



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Venture bought \$26 million in finished vehicles from Shelby American, a struggling maker of specialty cars 75% owned by Winget, and then recorded an impairment charge of \$14 million in 2001 when it could not sell them. Venture officials defend the decision, claiming it was important for the company to keep Shelby going so it could demonstrate to other carmakers its ability to supply parts for specialty vehicles.

Then there's Venture Sales & Engineering, founded in 1988 by Winget, that collects 3% of Venture's North American production sales in return for providing "marketing services." Most of VS&E's sales came from Venture, and in 2001, according to unaudited documents compiled by accountancy Perrin, Fordree & Co., it netted \$11.7 million on sales of \$16.7 million.

From VS&E the money seems to have found its way into Winget's pocket. As of Dec. 31, 2001 VS&E held accounts receivable of \$65.7 million from Winget himself. "There is nothing wrong with [Winget's] taking these fees and rentals from the company for his own personal use," says James Butler, Venture's acting chief financial officer. "They have been disclosed, and it was his way to diversify himself."

By the end of 2001 Venture reported net accounts receivable of \$42 million from companies in which Winget owned stock. Venture also recorded prepayments of \$23.9 million to companies owned by Winget and a \$47.4 million "progress payment" on unfinished tools and mold inventory being produced at Deluxe Pattern, a Winget-owned provider of tooling and fixture work.

Where was the money coming from? Intercompany loans by Peguform to Venture of \$100 million in 2001. With all that money going out the door, Peguform began stretching its payments to suppliers beyond the standard vendor terms in Germany of 14 days. This led to the May 8, 2002 cancellation by Hermes Kreditversicherungs of credit insurance on the Pegu-

form receivables held by suppliers, clogging the flow of goods. On May 28, without warning, four of Peguform's executives who served on its management board declared Peguform insolvent in Freiburg municipal court. The filing directors had spoken with Venture executives the previous day, but did not tell them about the filing. According to an Ernst & Young report provided to Bank One's lawyers, the directors were motivated by a German law that makes a company's directors personally liable if they let a company operate while insolvent for 21 days.

None of this was known to the syndicate led by Bank One which, on the very same day the German directors filed, finished funding half of a \$100 million loan to Venture. Venture notified Bank One sometime on May 28 of the insolvency petition. But Dallas-based Orix Capital Markets, which wired its part of the loan, \$6.4 million, wasn't notified in time. It sued for fraud in November, alleging Venture should have disclosed Peguform's loss of credit insurance and the potential for insolvency. "It was a ridiculous situation," says James Thompson, Orix's chief executive. "The whole company came apart before the loan was even distributed."

For its part, Venture claims Peguform was not insolvent, and so its executives saw no need to disclose the Hermes action to the bank syndicate. Venture filed court papers in Germany to stop the insolvency proceedings, to no avail. Today Peguform still

exists, thanks to infusions from customers like Volkswagen, DaimlerChrysler and Bayerische Motoren Werke, who still need its bumper parts and were enraged that their production schedules were put in jeopardy.

Back in the States, to stave off a bankruptcy of Venture, Winget struck an agreement with the bank syndicate to end his sweetheart deals: Venture would make no more payments to his outside companies. He also persuaded Ford, General Motors and DaimlerChrysler to accelerate payments and make early outlays on tooling programs. Winget tried to win the confidence of the court-appointed administrator for Peguform, Jobst Wellensiek. He promised to contribute to Venture affiliates generating Ebitda (earnings before interest, taxes and depreciation) of \$75 million, if Wellensiek would hold off selling Peguform. Wellensiek agreed to do so if Venture came up with \$250 million, including \$75 million for Peguform's future capital expenditures.

Winget got the Bank One syndicate and bondholders to sign documents saying they would try to raise the money. But that wasn't good enough for Wellensiek. In October he started proceedings that are expected to lead to a sale of the company.

That might please German automakers, who hold an estimated \$200 million in new debt on Peguform. But a sale would probably leave slim pickings for U.S. holders of Venture's now-defaulted bonds, judg-

ing from the market's response to events: Senior subordinated notes in Venture have been trading for as little as 3 cents on the dollar. Bank debt, higher on the vulture pecking order, is trading at 72 cents.

All of which leaves Winget little wiggle room. He is negotiating with the bondholders, offering to give up some equity to restructure Venture to keep it afloat. The banks have promised to hold off foreclosing on Venture until Apr. 15 and may or may not grant an extension. But Winget's creditors may decide it's easier just to bring down the curtain. **F**

"There is nothing wrong with Winget's taking these fees and rentals from the company for his own personal use. They have been disclosed."



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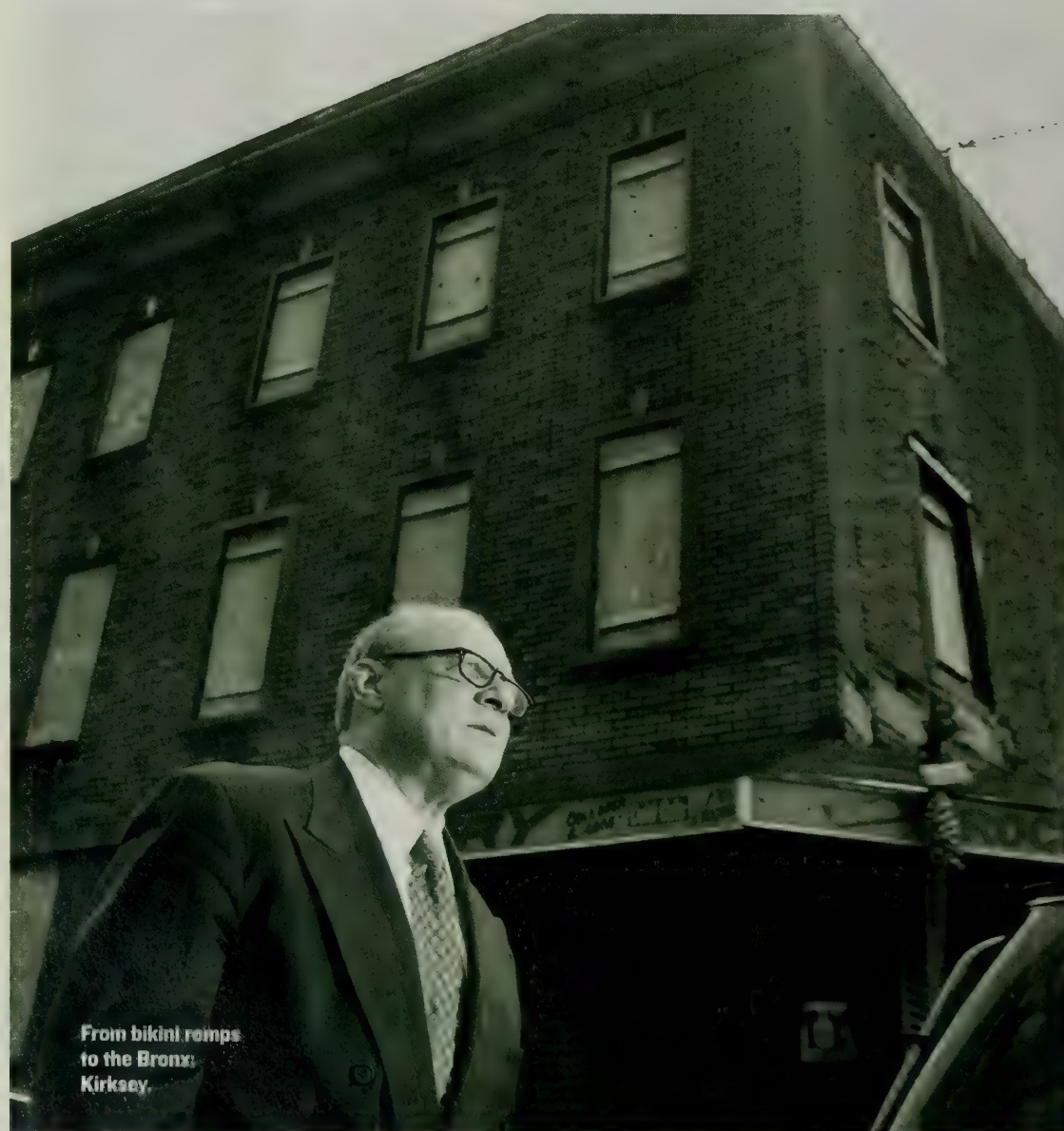
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Financing for The Masses

A onetime B-movie producer named Bill Kirksey has a novel idea to build affordable housing. And he's not interested in charity.

BY DANIEL KRUGER



IT'S FAIR TO SAY THAT WILLIAM E. KIRKSEY, now 58, has bounced around a bit in his life. After dropping out of New York University's M.B.A. and film pro-

grams in 1970, he spent the next eight years building a women's sportswear business, then sold it in 1978 for \$150,000. Trying his hand at movies, he

hooked up with Troma Films, a New York production house whose best-known movie, at least in certain circles, was bio thriller *Toxic Avenger* in 1984. Kirksey

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produced three titles for Troma, typical being the 1981 bikini romp *Squeeze Play!* In the 1980s he and his brother began developing properties around Boston, but that went bust.

And now here comes Kirksey again, pushing a financing technique—which he patented—that he is convinced will enable thousands of low-income people to buy a house. His entry into the affordable housing market came after observing a rent strike a decade ago in New York. He calls his Seattle-based company, Heedworks, a “for-profit philanthropy.” It’s a for-profit company with a do-good market objective.

This is a long shot, but he’s got some serious people taking him seriously. William Valenti, his chief executive, spent 18 years doing commercial and private banking with Chemical Bank and Riggs Bank, then joined software company Tegic as chief executive, selling to AOL for \$300 million in 1999. William Ruckelshaus, the former deputy attorney general of Watergate fame and former chief of Browning-Ferris Industries, is chairman of Heedworks’ advisory board. Goldman Sachs is giving Heedworks informal advice.

“We’re fortunate to have that kind of talent,” Kirksey says, and he’s not being modest. Margaret Guarino, a managing director in Bank of America’s public finance group, also a banker advising Heedworks, remembers meeting the wispy-haired Kirksey. “I had to put in my mind I was dealing with an inventor and not a financial person,” she laughs. “If I’d thought about it the other way, I would have turned around and left.”

Kirksey wants to aid people who have sufficient income to make monthly mortgage payments but lack the cash for a down payment. He’s not the only person with this target. It is estimated that 17,000 people a month buy homes with a down payment provided by nonprofits, like the Nehemiah Plan, famous for rehabbing large parts of the South Bronx. The National Low Income Housing Coalition cites a government study saying the U.S. needs 1.8 million homes to meet demand for low-income people.

Kirksey calls his financing technique the “Hero bond” (for Homeowners Eco-

nomic Realization Organization). Essentially he wants to pool lots of buyers to get volume discounts on the financing and housing. Adam Sherman, the Goldman banker advising Heedworks, says the volume sales model is comparable to “what Costco does for consumer products.”

Kirksey would first get a large group of potential owners—50 to 100 in one area—preapproved for mortgages that would be bundled together as a “Hero bond.” With cross collateralization the default of one homeowner would not cause the lender a loss. Kirksey argues

persuade builders that they will get paid.

Kirksey says he can persuade lenders to lend up to the higher of the purchase price or the appraised value, rather than the lower. Because the homes will have been bought at a volume discount, their appraised value should be higher than the purchase price, creating excess money. Why would banks agree to this? Because half of the overage, he says, would go into a reserve to cover defaults; the other half is invested in a business enterprise, say retail stores, with the home buyers getting shares in the venture.

There are a few problems here. GE Mortgage Insurance, which has looked at Kirksey’s plan, worries that if appraisers don’t understand the structure, Kirksey’s homes could drag down the value of surrounding properties, upon whose value the appraisals of Heedworks’ projects depend. Or mortgage traders could conclude that the Hero loans are too kinky to own, scaring away lenders who are unlikely to want to keep all the loans on their books.

The first Hero deal is still months away, though Heedworks is close to securing a 10-acre plot on the western edge of Charlotte, N.C., where it would install 50 modular homes. For licensing Hero bonds, Heedworks could get 5% of the aggregate purchase prices for homes in a development.

Heedworks should have enough cash to run through a few test markets. Valenti, the chief executive, expects to sell \$1.1 million in Heedworks preferred stock through his contacts, still leaving Kirksey and Valenti combined with a controlling interest.

As always, Kirksey has a few other ideas on his plate. He’s pushing something called First Words, an infant visual language program he’s developed, and which he’s happy to explain. He also mentions *Macroman*, his “neo-Hobbesian” economic treatise modeled on *Leviathan*. Then there’s a role in his friend Toby Hubner’s B-movie *Deep Toad*, the coming-of-age tale of a drug agent trying to bust a toad-smuggling ring. All a little wild and woolly. But then you might not get a novel housing finance idea from an establishment type.

► By the Numbers

House Party

Increasingly common no-money-down mortgages make home buying easier.

6.7%

Percentage of U.S. homes bought with no down payment.

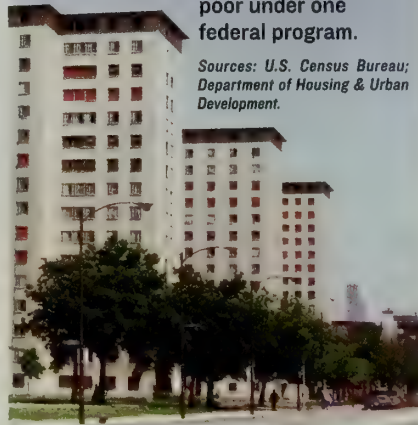
4.8 million

Number of U.S. homes bought with no down payment.

410,000

Number of housing units created for poor under one federal program.

Sources: U.S. Census Bureau; Department of Housing & Urban Development.



that banks will want to lend, and even hold the debt, to satisfy obligations under the Community Reinvestment Act, the 1977 law directing banks to lend to low-income families.

Once he knows how much money he’s wielding, Kirksey can start buying land and negotiating with a builder. Kirksey, buying up to 100 homes at a time, would try to get a volume discount, with the preapproved mortgages helping Kirksey

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"crowned" greens. Ross carved generous, rolling fairways but used severe contour on the greens and small but penal bunkering to create a strategic masterpiece that for 35 years tested the best the game had to offer.

In 1958, the resort opened nine new holes by Robert Trent Jones, Sr. Jones drew inspiration from Ross' earlier work but left his mark in the form of larger



greens and longer, more demanding approach shots. Jones added nine more holes in 1965, and the resulting courses so beautifully complemented one another that the resort took the unique approach of "blending" them into what are now known as the East and West courses. The lower holes of both courses come from the original Ross design. The upper holes are the "new" ones designed by Jones. Arnold Palmer and Ed Seay

added a modern mountain course, the South Course, in 1976 (currently playing at nine holes). All three have hosted USGA national championships. Jack Nicklaus won his first U.S. Amateur on the East Course in 1959. Annika Sorenstam made her debut as a major champion on that same course in 1995.

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Trial By Fire

Keeping his workers on payroll after his mill burned down turned Aaron Feuerstein into a corporate saint. There's another side to this story.

BY KATARZYNA MORENO

AS AARON FEUERSTEIN WALKED DOWN THE HALLWAY of his rebuilt textile mill in Lawrence, Mass. last year, a worker knelt and kissed his hand. Feuerstein didn't flinch. After his privately owned Malden Mills burned to the ground in late 1995, Feuerstein, then 71, dipped into his own pocket to keep 1,700 idle employees on payroll for three months. His benevolence got him a mention in President Clinton's 1996 State of the Union address. When the \$100 million in debt that Malden took on after the fire forced the

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founds the com-
pany, originally
called Malden
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Malden, Mass.

1945
Aaron Feuerstein
joins Malden Mills
in quality control. He
becomes chief
executive in the early
1950s.

1956
Company
moves to
Lawrence,
Mass.



1994
Malden Mills adds new
mill in Gorlitz, Germany.
The company has cus-
tomers in 50 countries.

1981
Malden Mills
invents synthetic
fleece, trademarked
as Polartec.



1995 Malden Mills suffers a fire on its flocking
line. The blaze causes more destruction to
property—\$500 million worth—than any fire in
Massachusetts history, severely injuring 33
workers.

2001
Malden declares
bankruptcy.

2003
Malden emerges from bankruptcy.
Feuerstein, no longer in control, has
option to buy back the company.



company into bankruptcy in 2001, the *Boston Globe* rallied to its defense, calling on the public to continue buying its signature fleece, Polartec. Folks from all over sent checks for \$5 to \$25, raising \$25,000 that Malden used to donate Polartec gear to homeless shelters. Recently, Hollywood producers came knocking on Feuerstein's door, to explore a movie about the corporate hero.

These days, when toppling executive icons has become a national sport, heroes stand out in dramatic relief. As Malden now emerges from Chapter 11, Feuerstein has again come out solidly behind his employees. In his hands alone, he says, "this company will be true to its mission of responsibility to the workers, as opposed to other interests."

It's a heartstring-tugging story—at least the way Feuerstein has told it again and again to the press. But take a look into investigations by the Occupational Safety & Health Administration, the office of the Massachusetts state fire marshal and Malden's insurance company, American International Group, and a strikingly different saga emerges. According to documents and depositions in suits and countersuits, Malden repeatedly put its employees in harm's way and should have known about unsafe

working conditions—which may have contributed to the fire—but didn't do enough to fix them and, instead, lobbied regulators to back off. Denying any responsibility for the accident, Feuerstein has deflected blame onto his vendors and suppliers. He has repeatedly exploited powerful political connections to keep his company afloat after he himself made poor business decisions.

This man of contradictions is a third-generation owner/operator of the largest business in Lawrence, Mass. On the one hand a paternal leader who found the best medical specialist for an employee's spouse and made sure the doctor somehow got paid, and helped a worker change shifts so that he could spend more time with his family. On the other hand a martinet who demanded strict loyalty to Malden. A former employee recalls that at a wake honoring a worker's father, Feuerstein loudly badgered the grieving employee to return to work the very next day.

The defining moment for Feuerstein is the December 1995 fire. During the blaze, he recalls, he asked Malden's chief engineer, William Demmons, whether he knew how to salvage part of the plant where Polartec was made. "If I could save the fourth building," Feuerstein explains, "we could scheme out how to stay in business." Demmons didn't think it could be saved; neither did the fire department. "We did what we had to do," says Feuerstein. Twenty-eight of his employees entered the building and put out the fire. "It was risky," Feuerstein says. "Sure I was afraid for their lives. But nobody died that night, which is amazing."

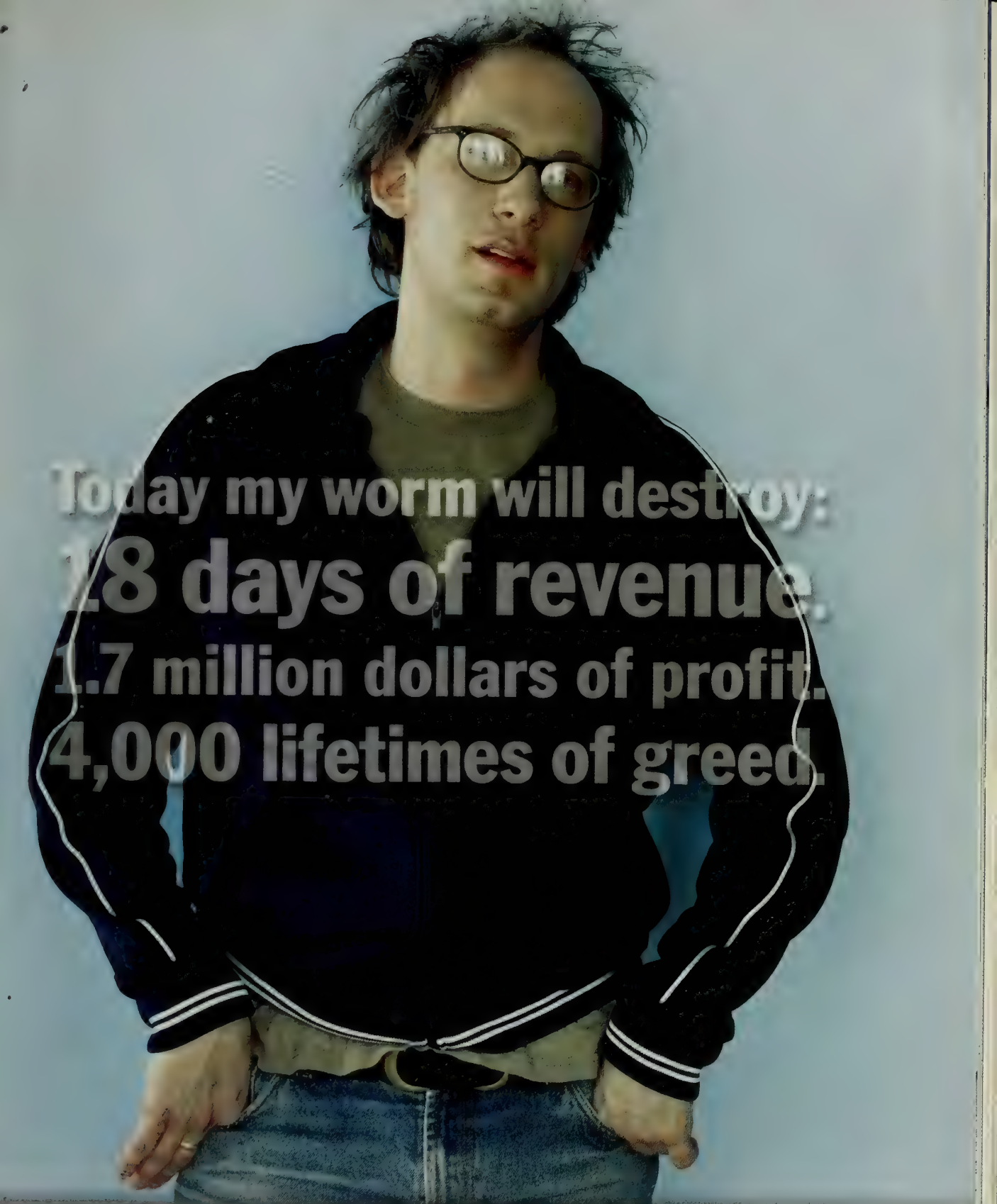
Amazing, indeed. The building was saved. None of the workers who grabbed fire extinguishers was hurt, but, according to the Federal Emergency Management Agency, 33 other people were injured in the fire, 12 of them critically. FEMA estimates that the fire caused \$500 million in damage. "I would have spent anything, anything to have prevented that fire," Feuerstein says.

Still, according to company and OSHA documents, there had been fires at Malden since 1984. Many originated on the company's flock line—61 incidents between 1990 and 1993, say internal company records—where short, chemically treated nylon fibers, or flock, float through an electrical grid onto fabric treated with adhesive. One such fire in 1993 injured six workers; one underwent numerous bouts of plastic surgery, says his attorney.

This time the feds took notice. OSHA cited Malden for exposing its flock-division employees "to the hazard of being burned from fire and/or explosion." Its flock, OSHA's own tests noted, "demonstrated a potential to explode under certain conditions."

Classifying flock as combustible would've required installing costly explosion-proof electrical equipment. The company lobbied OSHA not to reclassify the material, sending test results from Hazards Research Corp., one of its safety consultants, which concluded that the risk of explosion of flock was "weak." But Malden never sent OSHA two reports from another safety consultant, Fenwal Safety Systems, which concluded that flock was combustible. Nor, claims Fenwal, did Malden executives inform their own fire marshal of Fenwal's tests. For whatever reason, OSHA didn't reclassify flock after the 1993 fire. Malden did install new fire-suppression equipment and trained workers in evacuation plans.

Only three years after the 1995 blaze did OSHA reclassify the material. Too late, by then, to hit Malden with any charges or fines—even though the state fire marshal's report concluded that



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the lack of insulation around certain electrical fixtures was a contributing factor to the blaze. Says Feuerstein, "We got a clean bill of health from all the best safety consultants and OSHA."

Armed with that technical victory Malden went on a legal rampage. Along with its insurers, subsidiaries of AIG and Chubb, it sued 22 fiber suppliers and safety consultants, alleging that they failed to warn Malden of fire and explosion hazards inherent in its flocking operation and seeking \$1.5 billion in compensatory and punitive damages. (The deep-pocket roster of defendants included DuPont, Rhône-Poulenc and Novalis Fibres, as well as Fenwal, maker of fire-protection products, and Det-Tronics, which produces explosion-detection equipment.)

Odd bedfellows, Malden and AIG. A year before, the insurer had sued Malden, alleging that "the fire incident that occurred on Dec. 11, 1995 was not unexpected, nor a surprise to Malden," and that the company "engaged in fraud or false swearing relating to the insurance." But all was forgiven after Malden, which had already been paid \$300 million by insurers, agreed to turn all but \$310 million of the \$1.5 billion it was seeking over to its carriers.

It turned out somewhat differently. Last September, says Malden, the suits were settled for some \$40 million, with \$20

The long wooden table and armchairs with fraying upholstery give his office a tavernish feel. Behind his desk hangs a print of the original factory built in the 1890s, when it was still powered by the water from the Spickett River. This picture of benevolent paternalism is borne out by Feuerstein's gestures to his workers after the latest fires: arranging for free car service to hospitals for relatives of victims, relocating flocking operators to back-office jobs. Malden has contributed generously to homeless shelters; Feuerstein gave his \$250,000 Paul Newman prize to Lawrence 2000, a project to revitalize the neighborhood around the mill.

But he has also put his company in financial jeopardy. By the mid-1990s half of Malden's \$400 million in annual sales came from Polartec, its hugely successful invention trademarked in 1981, the other half from its flocking operations, which made fabrics for upholstery. After the 1995 fire Feuerstein by no means abandoned Polartec, but he made an unwise \$40 million bet on an uptick in his upholstery business. Hoping to sell a commodity fabric as a high-end product, Malden (under Feuerstein's wife, Louise) started pushing a type of fabric called jacquard. It flopped, undercut by Asian imports, which were 25% cheaper. "I did it to diversify," Feuerstein explains. In 1998 Malden wrote

"The burn victims are angry that it's all about Feuerstein."

million going to Malden. "I was sick about it," says Feuerstein. "We thought we would get a billion and half out of it. But I was financially strapped. I had no option." Injured workers made out just slightly better. In 1999, 13 victims settled a suit against Malden's fiber suppliers and safety consultants for \$18.5 million. The company issued a sanctimonious press release: "Malden Mills supports the actions of its injured workers to receive compensation for their dreadful ordeal."

The company was a tad less sympathetic when those same employees turned around and sued it. The suit alleged they were injured due to "serious and willful misconduct of an employer," and sought a doubling in payments of their worker compensation benefits. Malden settled a year later for \$2.8 million, with payments ranging from \$20,000 to \$478,000, depending on the injury. Its press release this time around: "The allegations of the workers against Malden have no basis in reality."

None of this has scorched Feuerstein's image. Lawrence can't afford to lose New England's last old textile mill, with its 1,200 jobs. When the mill went bankrupt, unemployment in Lawrence stood at 11.2%, one of the highest in Massachusetts. The town of 72,000 is largely populated by poor immigrants from the Dominican Republic and Puerto Rico. "The burn victims are angry that it's all about Feuerstein now," says Robert Autieri, a personal-injury lawyer who represented several workers hurt in the 1993 and 1995 fires. "But we don't want to say anything that might hurt Malden's chances of coming out of bankruptcy."

Indeed, Malden has done a lot of good in the community. Founded by Feuerstein's grandfather in 1906 as Malden Knitting, the plant moved to Lawrence in 1956 to exploit empty buildings and skilled workers left behind when the textile industry moved south in search of cheaper labor. "After World War II the textile magnates left and impoverished the community," says Feuerstein.

off its investment, exiting the upholstery business.

Circumstances hindered Feuerstein's ability to overcome that error. In 2001 Malden overestimated demand for Polartec, pummeled by an unusually warm winter. Its projected \$45 million operating income (earnings before interest, taxes, depreciation and amortization) came in at \$1.5 million for the fiscal year ended Oct. 31; the annual interest on its debt was an estimated \$19 million. In November 2001 Malden filed for Chapter 11, with depreciated assets of \$190 million and liabilities of \$180 million.

As his business started failing, Feuerstein tapped big guns in Washington, D.C. to bail him out. In October 2000 a congressional delegation led by Massachusetts Senator Edward Kennedy lobbied the defense appropriations committee for a \$17 million increase over three years for cold-weather military clothing made of Polartec. A year later he and fellow Massachusetts Democrat John Kerry made phone calls to pressure GE Capital, Malden's biggest creditor, to secure \$20 million debtor-in-possession financing to keep Malden operating. Feuerstein shrugs at the tactics: "If [lenders] find it intimidating, then I feel sorry for them."

GE Capital wasn't that intimidated. It and the other creditors rejected Malden's initial restructuring plans, which called for a ten-year stretch-out of the company's \$180 million in debt. They also nixed Feuerstein's repeated demands to stay on as chief executive and give up only 20% of the equity.

This is by no means the last we'll hear of Aaron Feuerstein. While GE Capital will manage Malden, he gets to stay on as chairman and take a \$475,000 annual salary. As for debt repayment, he has three years to buy back the company for \$157 million—or for the fire-sale price of \$92 million, if he can raise the cash by July 31 of this year. Feuerstein thinks he can hit the earlier deadline and says he's already got commitments for most of the money. **F**

PERHAPS
I SHOULD
ADMIT IT'S NO
LONGER BABY FAT.

I HOPE
CYNTHIA
BROUGHT
HER HOME-
MADE COOKIES
AGAIN.

WHEN
YOU
CONTROL
THE MAIL,
YOU CON-
TROL THE
INFORMATION.

WITH THIS
MERGER, I
ONCE AGAIN
FIND MYSELF
ON THE
PRECIPICE OF
CHANGE.

BEING THE MIDDLE CHILD
ISN'T SO BAD. AT LEAST
NOT SINCE I MOVED.

I HAVE A SALIENT
POINT TO MAKE
REGARDING OUR
OPERATIONAL
EFFICIENCIES. BUT
DO THEY CONSULT
ME? NOOOO.

KELLY
SURE GETS A LOT
OF LETTERS FROM
THE CREDIT CARD
COMPANY.

UH OH.
THAT WHEEL
STARTING TO
SQUEAK
AGAIN.

WHY DON'T I GET
ANY MAIL? TALK
ABOUT IRONY.

I SHOULD HAVE
BEEN AN
ANESTHESIOLO-
GIST.
I WONDER IF THEY
HAVE A SUCCESSION
PLAN IN MIND FOR ME.

JUST BECAUSE
I SAY "HOW'S
IT GOING?"
DOESN'T MEAN
PEOPLE HAVE
TO ANSWER.

TWICE THE
EMPLOYEES
MEANS TWICE
THE MAIL.
MAY REQUIRE
THE CAPITAL
INVESTMENT
OF A SECOND
BASKET.

WHY IS
JUST A
TOAST FOOD?
IT COULD BE SO
MUCH MORE.
PEOPLE WOULDN'T
THINK WE SO CUTE
IF THEY HAD TEETH.

WONDER HOW MAIL LOOKS IN
KUALA LUMPUR.
I WANT A DOG OR ANYTHING
I COULD TEACH TO JUMP
THROUGH HOOPS OF FIRE.

LOTS OF
CEOS GOT
THEIR START IN
THE MAILROOM.
GUESS I'M JUST A
TRADITIONALIST.

WHY DO PEOPLE USE THEIR
MIDDLE INITIALS SO MUCH?

I WONDER
WHAT THE EU
WILL SAY
ABOUT THIS.
IS THAT GUY
DELIVERING
MAIL OR
JUST EAVES-
DROPPING?

IF WE DON'T
TELL PEOPLE
WHAT'S GOING
ON NOW, THERE
WON'T BE
ANYONE TO TELL

I'M NOT
NEW NAME MEANS
NEW COMPANY
NEW COMPANY MEANS
NEW LAPTOP
MOD-MOD

GOING TO FIND
REDUNDANCY
WHERE? WE
NEED
SCISSORS
SECOND MERGE
IN TWO YEARS
I PICKED THE
WRONG WEEK

TO STOP
SMOKING
NEW WE
WERE ME
HERE ME
LATE MAIL
THAT'S
IF WE K
GIVING
HERE ME
RESTRU
CUT THE
FORCES

EARNING
LATE MAIL
THAT'S
IF WE K
GIVING
HERE ME
RESTRU
CUT THE
FORCES

IF
MARS
HAS
POLAR
CAPS
MAYBE IT
HAS
PENGUINS.
AND MAYBE
THEY HAVE
RAY GUNS.

000000

WHY CAN'T
I HAVE A
SWIVEL
CHAIR?

WHY
ISN'T TIA
RETURNING
MY CALLS? SHE
BETTER NOT BE
IN RIO AGAIN.
MERGE 30,000
EMPLOYEES IN
24 COUNTRIES
SPEAKING
16 DIFFERENT
LANGUAGES.
DON'T WORRY
ABOUT ME.
I'LL BE JUST FINE.
I SHOULD HAVE
BEEN A SEISMOLOGIST.

THERE'S NOTHING
I ENJOY MORE
THAN A GOOD BOOK.
OH, AND MANAGING
PENSION
LIABILITIES.

SOMEONE SHOULD TELL
HIM ABOUT THE MUSTARD
STAIN, NOT ME, BUT
SOMEONE.

I'VE GOT AN IDEA
SINCE THERE'S NO
INTERNATIONAL
STANDARDS FOR
PAYROLL
SYSTEMS, WHY
DOESN'T
EVERYONE JUST
DO IT MY WAY?

WHY IS COLIN ALWAYS
RAISING HIS VOICE
LIKE THAT?
I'D DO WELL IN OUR
NEW PARIS OFFICE.
OU EST LA STATION
DE TRAIN?

I CAN'T BELIEVE
I'M PLANNING
THE 20-YEAR
REUNION.
RUNNING FOR
CLASS
PRESIDENT WAS
SUCH A MISTAKE.

I HEARD OUR NAME
IS FIRST ON THE
LETTERHEAD. YESSSS.

THAT SPREAD I BOUGHT
NOTHING LIKE BUTTER.
I'VE BEEN
TEENAGERS
WISGS
PRIVATE
WON'T DO A THING
NO MY LETTERS

IF I
WAS
NOT A
PYRAMID
SCHEME
I TRUST
JEFF

PICK ON THE
EXPATRIATE

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How's my driving? Bill Zollars came from outside to restore the shine at the industry leader.

WITH THE SAME JOY A truck driver feels on the open road after spending a morning frozen in gridlock, William Zollars welcomed the death of Consolidated Freightways last fall. The freight hauler was a top competitor for Zollars, who is chief executive of Yellow Transportation.

Yellow has since grabbed one-sixth of Consolidated's accounts, worth \$300 million a year. That has kept Yellow's docks busy amid a 10% decline in industry volume. Without the windfall, sales last year would have been flat; instead, Yellow posted a 5% rise, to \$2.6 billion. "As a growth strategy, I would highly recommend having one of your major competitors go out of business," Zollars says.

That he can joke about it is a testament to the impressive transformation he has engineered at Yellow since becoming chief executive in 1999. When he arrived Yellow already led the \$24 billion-a-year LTL (less-

dated. FedEx Freight did \$2 billion in less-than-truckload revenue last fiscal year, 10% of total sales, and now runs third behind Yellow and Roadway. FedEx can also call on its sister companies to move excess packages in a pinch. That helps it earn a dime of operating profit on every sales dollar, compared with 3 cents for Yellow and Roadway, which are forced to rely on expensive third parties for excess freight. UPS, which has offered a smaller-freight service since 1988, says it is ramping up, too.

Zollars, a 55-year-old trucking executive who has stared down trucking unions since his days at Kodak in the 1970s, says he is unafraid of FedEx. He has been bracing for the FedEx foray for years and insists Yellow will stay number one. In fact, he promises to double earnings this year to \$65 million on 7% sales growth, and he vows to lift operating profit margins up to 8% by 2005. Yet Wall Street tars Yellow with a low value. Its stock trades at ten times the expected level of earnings per share for the next 12 months, while FedEx

those of standard delivery.

Pfizer, a Yellow customer for 30 years, avidly adopted Exact Express a couple of years after Kmart began charging Pfizer 10% of the invoice on late deliveries. Pfizer transportation manager Shawn O'Sullivan says the guaranteed delivery time ensures no more extra payments to Kmart. So far only 8% of Yellow customers use the newer services, but Zollars believes he can boost that to 25%, tripling sales to \$500 million in five years.

Yellow also hopes to hit the same sales mark in the same time period for Meridian IQ, a Web-based service that lets customers manage all their domestic and international shipments, whether they go by Yellow, FedEx or slow boat to China. Launched in 2001, the service already is profitable on sales of \$82 million.

Odds are that Zollars can deliver what he promises. Considering the shape Yellow was in six years ago, it's a surprise that the company now thrives. Founded in 1924 as an Oklahoma City taxicab company, Yellow (whose trademark color isn't yellow at

The Big Tune-Up

Bill Zollars steered Yellow away from a smashup, but profits are thin in the trucking business—and here comes FedEx.

BY CHRISTOPHER HELMAN

an-truckload) market for shipments too small to fill up a whole trailer but too big for parcel titans like UPS and FedEx. But Yellow's shipping system was a sprawling, error-prone mess; 40% of shipments arrived late or damaged, or had billing snafus or other problems. The defect rate was 4%.

But the fun never stops in the hard-totten trucking business. Fearsome FedEx, which doubled its LTL capacity in 2001 after swallowing its second regional line, wants to see Yellow go the way of Consoli-

trades at a price-to-earnings multiple of 21—despite expectations it will grow at a slower rate than Yellow this year.

His plan calls for introducing a slew of higher-profit business ideas and staying on top of Yellow's much-improved customer service. Last year Yellow racked up \$155 million in revenue from specialty services such as Exact Express, which lets customers name their time of delivery, and Definite Delivery, which gets the goods there in two days. These services carry 20% operating-profit margins, four times

all but an eye-catching "swamp-holly orange") had built a national network by the 1990s by acquiring failing competitors. But the combination was an inefficient amalgam of 8,000 tractors, 35,000 trailers and a hub-and-spoke network of 345 distribution terminals focused only on low prices. It lost a combined \$65 million from 1994 to 1996.

Then Yellow's board cleared the decks, bringing in Chief Executive Maurice Myers, who hired Zollars away from the freight division of Ryder, where he had built a logis-

tics-management division to \$1.5 billion in sales from \$200 million in three years. Myers quit in 1999 to run Waste Management, leaving Zollars to clean up Yellow's act.

Zollars got busy, setting about making Yellow a leaner, more efficient, tech-savvy model of customer service. He has shucked unprofitable customers and reduced fixed costs from 50% to 20% of Yellow's total, so that when the economy picks up profits could soar, with 20 cents of every extra sales buck padding profits. "When I first came aboard I was worried. Then I realized if you have a 40% defect rate and are still operating, you must be in a pretty good business," he says.

When Zollars arrived in 1996, his managers had no idea what customers wanted. No one had bothered to ask. So he paid for a half-hour telephone survey of 14,000 customers, who told Yellow three things: Give us more options and services, give us faster and more accurate deliveries and, most important, make sure we're

immediately upgrade a shipment's priority for 10% to 15% more. In the old days when Yellow botched a shipment, a customer's complaint could take weeks to wend its way through glacial bureaucracy. Now reps have the autonomy to deal with problems immediately and soothe angry customers with free shipping on their next order.

Such freebies cost \$300,000 last year, but Zollars insists it's worth it. Robert Kostic, who handles shipping for Barnes & Noble's college books division, is now giving Yellow business that once went to rivals ABF and Roadway. Yellow workers, Kostic says, "go the extra mile. If a shipment's going to come in late, they'll call and give us the heads up. No one else does."

Zollars, meanwhile, sent a squadron of 50 industrial engineers and operations experts to study and fix Yellow's 345 distribution centers. The single biggest one, the 400,000-square-foot Chicago terminal, was also one of the

rooms were relocated centrally so workers wouldn't lose time walking to the facilities. The results were startling: Before Zollars' teams parachuted in, the Chicago site took 21 hours to move a package from arrival to departure. Now the turnaround time has been cut almost in half, to 11 hours. Companywide, a shipment took an average of 3.8 days to make a 1,300-mile trip. Now it takes 2.65 days, a 30% reduction.

At the beginning of every shift drivers used to get a list of jobs and were sent off on their own. They often would sit idle while waiting for customers not yet ready for delivery. Now internally developed software plots drivers' pickups and deliveries in 20-minute increments. With the new scheduling, managers quickly noticed which customers were unprepared for pickups or weren't around for deliveries, sucking up valuable hours.

"We went to talk to [these] customers about improving the relationship," says Zollars. "Some didn't like it and weren't willing to work with us. They weren't profitable for us, so we no longer do business with them." He won't talk numbers but Yellow axed dozens of accounts.

Yellow dotes on its drivers, too, adding more seat-back support, redesigning mirrors and steering wheels for better visibility and maneuverability and adding more sensitive pedals. New translucent roofs on trailers let in the light to make packing easier. By 2000, driver productivity rose 20% and Yellow saw a 29% reduction in man hours lost to job injuries.

By making his central assets more productive, Zollars made others dispensable. Yellow's tighter timetables now allow it to replace traditional national fleet to handle the territories of two struggling regional carriers that Yellow has owned since the 1980s: Saia and Jevic. So last fall Yellow spun them off into a new public company, SCS Transportation. That helped Yellow shed \$237 million of its \$361 million in debt last year, lowering its debt from 42% to 28% of total capital. An investor with \$24,000 in Yellow shares before the spinoff now owns that stock, which is up a bit plus \$6,000 in SCS shares. SCS may not survive alone for long but, like Consolidated Freightways, its demise would make Yellow stronger.

Ready to Roll

Less-than-truckload haulers expect big earnings boosts this year. Their stocks look cheap.



Company	Earnings growth ¹	LATEST 12 MONTHS			P/E 2003E	Market value (\$mil)
		sales (\$bil)	operating margin (%)	net income (\$mil)		
Arkansas Best	68%	\$1.4	4.8%	\$40.8	11	\$663
Roadway	91	3.0	3.0	35.1	9	645
USFreightways	59	2.4	2.6	12.4	12	695
Yellow	157	2.6	2.1	24.0	11	742

¹Estimated 2003. Sources: Multex via FactSet Research Systems; Deutsche Bank.

happy. Zollars promptly tied bonus pay to customer satisfaction and spent 18 months crisscrossing the country, visiting trucking terminals to tell workers about the changes he wanted to make. He urged employees to look at how Nordstrom, Starbucks, Southwest Airlines and even FedEx treat their customers.

A 400-rep call center now handles most of the accounts, though a quarter of Yellow's customers manage everything via Myyellow.com. A customer needing to speed up a shipment already in transit can hit an icon on the Web site and start an Internet chat with a sales rep, who can

pokiest. A shipment came out of a trailer, got set on a dock by the truck, then was moved to another dock inside. From there it was put on a cart and wheeled to another dock, where eventually it was loaded onto a new truck. Trucks used to arrive at random times at random platforms, departing whenever they filled up.

In 1998 the engineers instituted timetables and started assigning incoming trucks to the loading bay nearest the trucks waiting to receive their packages. Now shipments move more quickly from truck to waiting area to new truck: two movements instead of four. Restrooms and break



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The \$8.8 Billion Tuna

What would it cost to keep mercury out of smokestacks?
And just what would that do for the health of young women?

BY DAN SELIGMAN

THE FIRST, BRIEF MERCURY SCARE came 30 years ago. The heavy metal was getting into swordfish and tuna. Some people stopped eating these species. For pregnant women, at least, it wasn't a bad idea to cut back as a precaution. In time swordfish demand returned to normal levels.

Scare number two is now with us, taking the form of proposals to drastically reduce mercury emissions from smokestacks. This time the scare could cost serious money. Unlike the earlier response (to modify diets), smokestack controls will be unlikely to give us serious reductions in health risks.

In the 1990s the Environmental Protection Agency began identifying mercury as a toxic substance of "particular concern" to the agency. Toward the end of this year it will propose regulations to reduce power-plant mercury emissions. Meanwhile, the Bush Administration is promoting a Clear Skies bill that would tackle mercury, sulfur dioxide and nitrogen oxides. Several other legislative efforts will be competing with Clear Skies in Congress.

Mercury is unthreatening to most Americans. It can be pumped into the atmosphere in various ways, with coal-fired electric power plants accounting for 46 tons a year spewed out in the U.S. But mercury floating about in the breeze is harmless. It becomes a threat only when it ends up in fish-populated waters, where microorganisms convert it to methylmercury, which is seriously toxic. This substance is ingested by smaller fish that are then eaten by larger fish, and it accumulates at very high levels in the bodies of certain big-league aquatic predators (swordfish, sharks, tuna) that end up on dinner plates.

But even then the mercury is not a problem for most humans. The problem now onstage in Washington centers on



"My God! There are traces of tuna fish in this shipment of mercury."

pregnant women whose diets are heavy in the wrong kind of fish. At some high level of methylmercury intake, the children they bear could suffer neurological damage. The EPA states that this problem affects the 8% of women in the childbearing years (generously defined as 16 to 49) who have a methylmercury blood level above 5.8 parts per billion.

EPA Administrator Christine Todd Whitman is not instinctively a fan of heavyweight regulation, but she has been given marching orders by her predecessor, Carol Browner. On Dec. 13, 2000, Al Gore conceded the election to George Bush. On Dec. 14 Browner's office issued a "determination" that the EPA "must propose regulations to control mercury emissions ... from coal- and oil-fired power plants by Dec. 15, 2003." This was pursuant to the Clean Air Act, which expressly bars the EPA from considering the cost of its regulations.

Browner recently delivered a briefing at the National Press Club in which she asserted that power-plant mercury emissions could be reduced by 90% by 2007. But that target, says EPA Assistant Administrator Jeffrey Holmstead, would cost the power in-

dustry at least \$8.8 billion a year, far more than any other program in EPA history.

If Bush gets his air pollution bill through, EPA regs issued under the authority of the Clean Air Act will be moot. But Bush might not get his way. The Natural Resources Defense Council calls Clear Skies the "Clean Air Act Rollback Bill." What don't environmentalists like about Clear Skies? It incorporates a rational exercise in cost-benefit analysis, which might make an \$8.8 billion annual outlay for mercury control problematic. Clear Skies spells out a mere 70% reduction in mercury emissions over 15 years.

Alas, a 70% reduction will not solve the tuna problem, nor would even a 90% reduction. The reason it won't is that the U.S. mercury emissions everyone is arguing about are only 3% of the worldwide total. An awful lot—exact fraction unknowable—of the mercury that ends up in pregnant women's tuna sandwiches is emitted by Russian, Chinese and Mexican smokestacks, which are not going to be regulated.

Perhaps the Surgeon General could reenact the first mercury panic, warning pregnant women about big fish. It would cost less than \$8.8 billion.

When I find something that really works, I stick with it. And it looks like I've got lots of company.

-Head Coach Dan Reeves



In over 10 years, more than 140 million prescriptions have been filled for the cholesterol-lowering medication ZOCOR. I've been taking ZOCOR ever since I had bypass surgery about 4 years ago. My doctor told me that along with healthy diet and exercise, ZOCOR could lower my cholesterol, which is what I really needed to do. I've always felt good knowing ZOCOR is a time-tested medication. You should too. And my cholesterol? ZOCOR really got it down.

ZOCOR is an effective medicine that along with diet and exercise can significantly lower total cholesterol. A clinical study among people with high cholesterol and heart disease found 42% fewer deaths from heart attack among those taking ZOCOR.* One tablet, taken once a day, can help people with high cholesterol and heart disease live a longer, healthier life.

Important considerations: ZOCOR is a prescription medicine and isn't right for everyone, including women who are nursing or pregnant or who may become pregnant, anyone with liver problems, and people who are allergic to any ingredients of ZOCOR. Unexplained muscle pain or weakness could be a sign of a rare but serious side effect and should be reported to your doctor right away. Your doctor may do blood tests before and during treatment with ZOCOR to check for liver problems. To avoid serious side effects, discuss with your doctor medicine or food you should avoid while on ZOCOR (see details immediately following this ad).

When diet and exercise are not enough, ask your doctor if ZOCOR is right for you. For more information and the free *Guide for Managing High Cholesterol*, call 1-800-MERCK-75 or visit zocor.com.

OUR RESULTS MAY VARY.

PLEASE READ THE ADDITIONAL INFORMATION ABOUT ZOCOR IMMEDIATELY FOLLOWING THIS AD.

2% reduction based on 111/2,221 (ZOCOR) vs 189/2,223 (placebo).

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MERCK

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0207309(1)(442C) ZOC CON



To find out if you qualify call 1-800-MERCK-75

ZOCOR®
(SIMVASTATIN)

It's your future. Be there.

ZOCOR[®]

(SIMVASTATIN)

PLEASE READ THIS SUMMARY CAREFULLY, AND THEN ASK YOUR DOCTOR ABOUT ZOCOR. NO ADVERTISEMENT CAN PROVIDE ALL THE INFORMATION NEEDED TO PRESCRIBE A DRUG. THIS ADVERTISEMENT DOES NOT TAKE THE PLACE OF CAREFUL DISCUSSIONS WITH YOUR DOCTOR. ONLY YOUR DOCTOR HAS THE TRAINING TO WEIGH THE RISKS AND BENEFITS OF A PRESCRIPTION DRUG FOR YOU.

USES OF ZOCOR

ZOCOR is a prescription drug that is indicated as an addition to diet for many patients with high cholesterol when diet and exercise are inadequate. For patients with coronary heart disease (CHD) and high cholesterol, ZOCOR is indicated as an addition to diet to reduce the risk of death by reducing coronary death; to reduce the risk of heart attack; to reduce the risk for undergoing cardiac procedures (coronary artery bypass grafting and percutaneous transluminal coronary angioplasty); and to reduce the risk of stroke or transient ischemic attack (TIA).

WHEN ZOCOR SHOULD NOT BE USED

Some people should not take ZOCOR. Discuss this with your doctor.

ZOCOR should not be used by patients who are allergic to any of its ingredients. In addition to the active ingredient simvastatin, each tablet contains the following inactive ingredients: cellulose, lactose, magnesium stearate, iron oxides, talc, titanium dioxide, and starch. Butylated hydroxyanisole is added as a preservative.

Patients with liver problems: ZOCOR should not be used by patients with active liver disease or repeated blood test results indicating possible liver problems. (See WARNINGS.)

Women who are or may become pregnant: Pregnant women should not take ZOCOR because it may harm the fetus. **Women of childbearing age should not take ZOCOR unless it is highly unlikely that they will become pregnant.** If a woman does become pregnant while on ZOCOR, she should stop taking the drug and talk to her doctor at once.

Women who are breast-feeding should not take ZOCOR.

WARNINGS

Muscle: Tell your doctor right away if you experience any unexplained muscle pain, tenderness, or weakness at any time during treatment with ZOCOR so your doctor can decide if ZOCOR should be stopped. Some patients may have muscle pain or weakness while taking ZOCOR. Rarely, this can include muscle breakdown resulting in kidney damage. The risk of muscle breakdown is greater in patients taking certain other drugs along with ZOCOR:

- Cyclosporine, itraconazole, ketoconazole, erythromycin, clarithromycin, HIV protease inhibitors, the antidepressant nefazodone, or large quantities of grapefruit juice (>1 quart daily), particularly with higher doses of ZOCOR.
- Gemfibrozil, other fibrates, or lipid-lowering doses (≥ 1 g/day) of niacin, particularly with higher doses of ZOCOR.
- Amiodarone or verapamil with higher doses of ZOCOR.

The risk of muscle breakdown is greater at higher doses of simvastatin.

Because the risk of muscle side effects is greater when ZOCOR is used with the products listed above, the combined use of these products should be avoided unless your doctor determines the benefits are likely to outweigh the increased risks.

If your doctor determines that the benefits of combined use of ZOCOR with gemfibrozil, other fibrates, or niacin likely outweigh the increased risk of muscle problems, the dose of ZOCOR should not exceed 10 mg daily. No more than 10 mg/day of ZOCOR should be taken with cyclosporine.

The combined use of verapamil or amiodarone with doses above ZOCOR 20 mg should be avoided unless your doctor determines the benefits outweigh the increased risk of muscle breakdown.

Your doctor should also carefully monitor for any muscle pain, tenderness, or weakness, particularly during the initial months of therapy and if the dose of either drug is increased. Your doctor also may monitor the level of certain muscle enzymes in your body, but there is no assurance that such monitoring will prevent the occurrence of severe muscle disease.

The risk of muscle breakdown is greater in patients with kidney problems or diabetes.

If you have conditions that can increase your risk of muscle breakdown, which in turn can cause kidney damage, your doctor should temporarily withhold or stop ZOCOR. Also, since there are no known adverse consequences of briefly stopping therapy with ZOCOR, treatment should be stopped a few days before elective major surgery and when any major acute medical or surgical condition occurs. Discuss this with your doctor, who can explain these conditions to you.

Liver: About 1% of patients who took ZOCOR in clinical trials developed elevated levels of some liver enzymes. Patients who had these increases usually had no symptoms. Elevated liver enzymes usually returned to normal levels when therapy with ZOCOR was stopped.

In the ZOCOR Survival Study, the number of patients with more than 1 liver enzyme level elevation to greater than 3 times the normal upper limit was no different between the ZOCOR and placebo groups. Only 8 patients on ZOCOR and 5 on placebo discontinued therapy due to elevated liver enzyme levels. Patients were started on 20 mg of ZOCOR, and one third had their dose raised to 40 mg.

Your doctor should perform routine blood tests to check these enzymes before you start treatment with ZOCOR and periodically thereafter (for example, semiannually) for your first year of treatment or until 1 year after your last elevation in dose. Patients titrated to the 80-mg dose should receive an additional test at 3 months. If your enzyme levels increase, your doctor should order more frequent tests. If your liver enzyme levels remain unusually high, your doctor should discontinue your medication.

Tell your doctor about any liver disease you may have had in the past and about how much alcohol you consume. ZOCOR should be used with caution in patients who consume large amounts of alcohol.

PRECAUTIONS

Before starting treatment with ZOCOR, try to lower your cholesterol by other methods such as diet, exercise, and weight loss. Ask your doctor about how best to do this. Any other medical problems that can cause high cholesterol should also be treated.

Drug Interactions: Because of possible serious drug interactions, it is important to tell your doctor what other drugs you are taking, including those obtained without a prescription. You should also tell other doctors who are prescribing a new medicine for you that you are taking ZOCOR[®] (simvastatin).

ZOCOR can interact with the following:

- Itraconazole
- Ketoconazole
- Erythromycin
- Clarithromycin
- HIV protease inhibitors
- Nefazodone
- Cyclosporine
- Large quantities of grapefruit juice (>1 quart daily)

The risk of myopathy is also increased by the following lipid-lowering drugs that can cause myopathy when given alone:

- Gemfibrozil
- Other fibrates
- Niacin (nicotinic acid) (≥ 1 g/day)

The risk of muscle breakdown is increased with other drugs:

- Amiodarone
- Verapamil

Some patients taking lipid-lowering agents similar to ZOCOR and coumarin anticoagulants (a type of blood thinner) have experienced bleeding and/or increased blood clotting time. Patients taking these medicines should have their blood tested before starting therapy with ZOCOR and should continue to be monitored.

Central Nervous System Toxicity; Cancer, Mutations, Impairment of Fertility: Like most prescription drugs, ZOCOR was required to be tested on animals before it was marketed for human use. These tests were designed to achieve higher drug concentrations than humans achieve at recommended doses. In some tests, the animals had damage to the nerves in the central nervous system. In studies of mice with higher doses of ZOCOR, the likelihood of certain types of cancerous tumors increased. No evidence of mutations or damage to genetic material has been seen. In 1 study with ZOCOR, there was decreased fertility in male rats.

Pregnancy: Pregnant women should not take ZOCOR because it may harm the fetus.

Safety in pregnancy has not been established. In studies with lipid-lowering agents similar to ZOCOR, there have been rare reports of birth defects of the skeleton and digestive system. Therefore, women of childbearing age should not take ZOCOR unless it is highly unlikely they will become pregnant. If a woman does become pregnant while taking ZOCOR, she should stop taking the drug and talk to her doctor at once. The active ingredient of ZOCOR did not cause birth defects in rats at 3 times the human dose or in rabbits at 3 times the human dose.

Nursing Mothers: Drugs taken by nursing mothers may be present in their breast milk. Because of potential for serious adverse reactions in nursing infants, a woman taking ZOCOR should not breast-feed. (WHEN ZOCOR SHOULD NOT BE USED.)

Pediatric Use: ZOCOR is not recommended for children or patients under 20 years of age.

Geriatric Use: Higher blood levels of active drug were seen in elderly patients (70–78 years of age) compared with younger patients (18–30 years of age) in 1 study. In other studies, the cholesterol-lowering effect of ZOCOR were at least as great in elderly patients as in younger patients, and there were no overall differences in safety between elderly and younger patients over the 20–80 mg/day dosage range.

SIDE EFFECTS

Most patients tolerate treatment with ZOCOR well; however, like all prescription drugs, ZOCOR can cause side effects, and some of them can be serious. Side effects that do occur are usually mild and short-lived. **Only your doctor can weigh the risks versus the benefits of any prescription drug.** In clinical studies with ZOCOR, more than 1.5% of patients dropped out of the studies because of side effects. In a large, long-term study, patients taking ZOCOR experienced similar side effects to those patients taking placebo (sugar pills). Some of the side effects that have been reported with ZOCOR or related drugs are listed below. **This list is not complete. Be sure to ask your doctor about side effects before taking ZOCOR and to discuss any side effects that occur.**

Digestive System: Constipation, diarrhea, upset stomach, gas, heartburn, stomach pain/cramps, anorexia, loss of appetite, nausea, inflammation of the pancreas, hepatitis, jaundice, fatty changes in the liver, and, rarely, severe liver damage and failure, cirrhosis, and liver cancer.

Muscle, Skeletal: Muscle cramps, aches, pain, and weakness; joint pain; muscle breakdown.

Nervous System: Dizziness, headache, insomnia, tingling, memory loss, damage to nerves causing numbness and/or loss of sensation and/or abnormal sensations, anxiety, depression, tremor, loss of balance, and other disturbances.

Skin: Rash, itching, hair loss, dryness, nodules, discoloration.

Eye/Senses: Blurred vision, altered taste sensation, progression of cataracts, eye muscle weakness.

Hypersensitivity (Allergic) Reactions: On rare occasions, a wide variety of symptoms have been reported to occur either alone or together in groups (referred to as a syndrome) that appeared to be based on allergic type reactions, which may rarely be fatal. These have included 1 or more of the following: a severe general reaction that may include shortness of breath, wheezing, digestive symptoms, and low blood pressure and shock; an allergic reaction with swelling of the face, lips, tongue, and/or throat with difficulty swallowing; symptoms mimicking lupus (a disorder in which a person's immune system may attack parts of or her own body); severe muscle and blood vessel inflammation, sometimes including rash; bruises, varicose veins, or blood clots (that could result in anemia, infection, or blood clotting problems) or abnormal blood tests; inflamed or painful joints; hives; fatigue and weakness; sensitivity to sunlight; fever, chills; flushing; difficulty breathing; and severe skin disorders that vary from rash to a serious burn-like shedding of skin all over the body, including mucous membranes such as the lining of the mouth.

Other: Loss of sexual desire, breast enlargement, impotence.

Laboratory Tests: Liver function test abnormalities including elevated alkaline phosphatase and bilirubin; thyroid function abnormalities.

NOTE: This summary provides important information about ZOCOR. If you would like more information, ask your doctor or pharmacist to let you read the prescribing information and to discuss it with them.

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Good deal:
Alex Glickman
took a chance
on cars. Now
he's making
big dollars.

My Son, the Car Salesman

You'd think, with opportunities scarce, that college grads wouldn't be so snooty about sales jobs—especially the ones that pay well.

WHEN ALEXANDER GLICKMAN took a job last spring selling cars at a Tampa dealership as he was about to graduate from the University of South Florida with a 3.4 grade point average, his friends were chortling and his parents were pulling their hair out. "I was premed at the beginning of school,"

Glickman explains. "So they were saying: 'And now look what you're doing!'"

Not a year later, Glickman, who is 22, is driving around in a new \$40,000 Infiniti G35 coupe, and is about to buy a condominium in upper-crust Harbour Island. "My parents are on board now and my friends are like, 'Wow!'" Glickman says. "I don't know anyone my age

who's making as much money as I am."

Is Glickman the new breed of car salesman? Well, not quite yet, but car dealerships are trying to attract more Glickmans—college-educated, career-oriented people—to push the metal. Even in an economy shedding jobs, dealers struggle to find people who love the idea of selling cars. They tend to get sellers who wander

into the business for want of something better to do, says Kenneth Jackson, personnel director for Asbury Automotive, a Stamford, Conn.-based group of 93 dealers. Those folks quit quickly, are overly aggressive to customers and aren't usually candidates for management jobs. The National Automobile Dealers Association (NADA) says annual turnover among salesmen averages 40% at small dealerships and 53% at bigger ones.

So companies like Asbury and AutoNation, the biggest dealer group in the country with 287 dealerships, are rolling out new screening and recruiting programs to improve the quality of candidates they hire.

They've got some tough selling to do to change minds. Besides those job-image surveys showing car salesmen scraping the bottom with journalists and lawyers, selling cars is not easy money. Most dealerships pay salesmen a paltry base salary of roughly minimum wage. Salesmen then typically earn commissions of 25% of the dealership's gross profit on the car. That gross profit, by the way, is more than you might think. On a \$36,000 American-made SUV sold at "only \$200 over factory invoice" it could easily be \$1,300, depending on how long it sat around on the dealer's lot.

The commission can put an extra \$300 to \$400 in a salesman's pocket per car sold, and the average salesman sells ten cars per month. Manufacturers up the ante by rewarding dealerships and salespeople with cash for selling certain tough-to-move models, and add bonuses for hitting volume targets. Ford Motor, for instance, was paying its Lincoln dealers \$10,000 to sell the flopped (and discontinued) Lincoln Blackwood SUV. Some, but not all, of that kind of incentive is passed along to the buyer.

In a world where survival

is based so heavily on commissions, it's no wonder salespeople can be cutthroat with colleagues and customers. That's a huge turnoff to young people. Another problem for the youngsters is that the veterans get the best, repeat customers. The average car salesman made \$43,600 in 2000, according to the most recent statistics from NADA.

Jeffrey Wooley, who runs Asbury's 13 Tampa-area dealerships, realized if he wanted to buy another one, he wouldn't have anyone to run it. Novel idea: Recruit on college campuses.

Asbury's job fair booth last spring at USF got just one taker. Wooley shouldn't have been surprised: When he started selling cars in 1965, it was six months before his mother could admit to his grandmother what he was doing. When Asbury recruiters returned to campus later in the semester, they had

changed the sign to "Retail Management Training Program." That got Glickman's attention.

The program upends the traditional salesman setup, promising recruits ways to move up fast and pay that isn't based on commissions. Salary is set at \$30,000; bonuses are paid monthly and based on units sold. Sell seven cars in a month and you get \$25 per car, or \$175. The incentive is to push cars, not the price. Sell 20 in one month and your bonus goes to \$175 per car, or \$3,500.

Glickman quickly learned to sell: He averaged 14 cars and \$4,800 in income per month for the nine months he sold cars, an annual pace of \$58,000. As part of the training program, he was recently moved into the finance and insurance department of the dealership, and he and his bosses say he will make at least \$80,000 per year, maybe \$100,000. He's

pushing extended warranties and lender's loans from vendors like SunTrust and Chase. After finance and insurance, he will learn other parts of the business, like used car sales. The goal is to move him soon into a manager's job, and eventually have him become a guy the company can tap to run a dealership.

It hasn't been easy. Glickman says customers can be downright rude, because they are expecting the hard sell. And he estimates he's put in 60 hours a week to hit the kind of sales he's wanted. Two of the five recruits he started with dropped out early on.

"We want our salespeople and managers to mirror our clientele," says personnel director Jackson, who wants 100 people a year in the program by 2005 for the company's 93 dealerships. "Slowly, we think we can change the stereotype of the industry." But he has to ask the manager first. **F**

Uncool, High-Pay Jobs

Despite rising unemployment, some lucrative positions are begging for bodies.

BY JOANNE GORDON

DRUGSTORE PHARMACIST

OPENINGS: Nearly 6,000 now; 157,000 by 2020.

PAY: \$80,000 to \$100,000 to start.

NURSE ANESTHETIST

OPENINGS: About 13,000 graduates needed over the next eight years.

PAY: Starts at \$80,000 to \$95,000.

INDUSTRIAL ELECTRICIAN

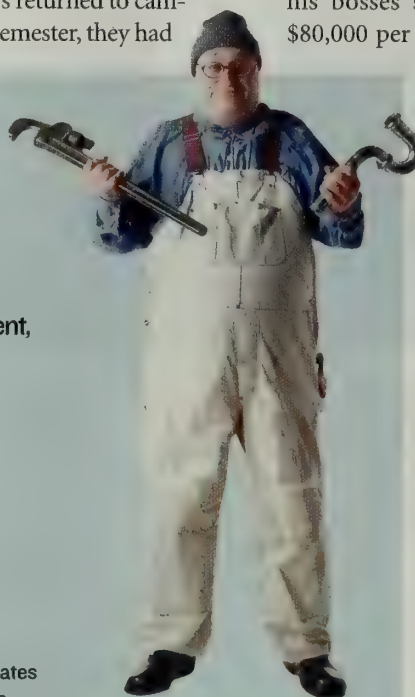
OPENINGS: 200,000 jobs for electricians in the next eight years.

PAY: In high-cost-of-living regions, starting salary after graduation can be \$70,000.

FUNERAL DIRECTOR/EMBALMER

OPENINGS: 34,000 needed by 2006.

PAY: Varies by region, tops out at more than \$130,000 for owners.



COMMERCIAL PLUMBER/PIPE FITTER

OPENINGS: 107,000 job openings in next eight years. **PAY:** Varies by region; post-training salary of \$56,000 to \$95,000 plus benefits.

HEATING, AIR-CONDITIONING AND REFRIGERATION TECHNICIAN (not installers)

OPENINGS: Anecdotal, contractors can't find enough. **PAY:** By region, salary after training could reach \$80,000 plus benefits.

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Achieve anything.

Quota Factory

The International Trade Commission protects American shores from the ravages of ... cheap coat hangers.

BY IRA CARNAHAN

IN JANUARY, IN A HALF-EMPTY hearing room in Washington, D.C., U.S. trade policy was being made. "There is no way that M&B can compete with Chinese hangers. The Chinese have shown, time and again, that if we get close to their price, they just lower their price further," testified Milton Magnus III, president of M&B Metal Products of Leeds, Ala.

The horror of it! Lowering prices to attract customers.

This is the world of the U.S. International Trade Commission, a little-known bureaucracy that each year issues findings and recommendations supporting dozens of tariffs and quotas inimical to international trade. Right now the ITC's four commissioners are weighing in on limiting everything from fence posts to fish fillets.

The coat hanger case provides a glimpse of just how this protection factory works. In November three U.S. hanger manufacturers asked the ITC to limit imports of Chinese wire hangers. The Americans didn't allege the Chinese were competing unfairly or getting illegal subsidies. It's just that their prices were too low.

Aren't cheaper hangers good for the American consumer? Perhaps the U.S.' competitive advantage lies in something a little higher tech? Those questions aren't of concern to the commissioners. Instead, Section 421 of the U.S. Trade Act instructs the ITC to determine whether Chinese imports are "increasing rapidly" and causing—or threatening to cause—domestic makers "material injury." If they are, the commissioners vote for a tariff or other relief.

It's not even clear from the law what "increasing rapidly" and "material injury" mean. Chinese imports totaled 13% of U.S. coat hanger sales in 2002, up from 3% in 1999. Is a rise of ten percentage points in three years rapid? To complicate matters further, much of the importing is done by U.S. hanger manufacturers themselves.

Then there's the question of what is injuring the U.S. firms. The weak economy is hurting them, as is casual dress, since most of their output goes to dry cleaners. Another problem is the higher cost of steel rod, the raw material used to make hangers. Rod got more expensive in 2000, when the Clinton Administration, on the recommendation of three ITC commissioners, raised duties on it. Those duties just expired, but other duties imposed under President George W. Bush continue.



As dubious as many ITC actions might seem in economic terms, the laws that the agency's commissioners are sworn to uphold are so antitrade that commissioners have little choice. "I think half the time if Adam Smith himself or David Ricardo were ITC commissioners, they'd have to vote protectionist," says Gregory Rushford, who publishes a trade newsletter in Vienna, Va.

Be that as it may, none of the commissioners would be mistaken for Ricardo. Commissioner Stephen Koplan spent years handling trade for the AFL-CIO, while Jennifer Hillman, the current vice chairman, was a trade adviser to former senator Terry Sanford (D-N.C.), a champion of textile protection. Commissioner Marcia Miller worked previously for the American Textile Manufacturers Institute, which lobbies against textile imports. These people were all appointed by Clinton, but one of Bush's new nominees doesn't appear to be much different. She is Charlotte Lane, a West Virginian and friend of Senator Jay Rockefeller (D-W.Va.), who is known on Capitol Hill as "Senator Steel." At Lane's congressional confirmation hearing last year, Rockefeller asked if industries demanding antidumping protection should be able to get it even if they are profitable and enjoying strong sales. She replied that they should.

A. Gary Shilling, an economist and *FORBES* columnist who testified against protection in the hanger case, says of the commissioners: "These guys are back in the dark ages. The kind of stuff that any economic researcher would be very familiar with is unfamiliar territory to them. They are in their own cocoon."

Two weeks after holding the Chinese hanger hearing the commissioners voted unanimously in favor of protection, although they then split on what should be done. The commissioners' recommendations ranged from a U.S. tariff of 15% to 30% for two to three years—on top of the current tariff of 3.9%. The recommendations are now before the President. ■

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Heir Time

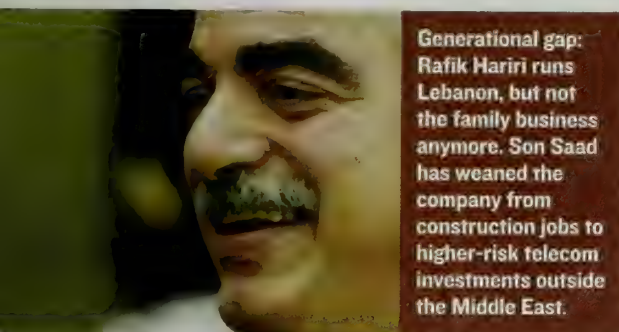
Lebanon's prime minister made billions rebuilding the Middle East. Now his son runs the show—and is taking it in a very different direction.

BY MATTHEW SWIBEL

CONSTRUCTION IS GOING TO BE BIG BUSINESS IN THE Middle East for years to come. And in this business few can rival a \$3 billion (sales) Riyadh, Saudi Arabia-based construction conglomerate called Saudi Oger. Along with the Bin Laden Group, Oger has built many of that kingdom's roads, hospitals and palaces over the last two decades. And few businesses are better placed: Founder Rafik Hariri is prime minister of Lebanon and confidant of Saudi royalty and French President Jacques Chirac. He is also adept at cutting his piece of the pie. Over the last dozen years Hariri has made an estimated \$100 million putting Beirut back together again—with a government mandate he himself devised.

His son Saad, 32, now runs Oger. What are his plans for post Saddam Iraq? He has none. Saad is too busy striking telecom deals in eastern Europe and sub-Saharan Africa, diversifying Oger into high-growth, high-risk sectors. If Beirut is casting about for a more cosmopolitan image in commerce, it is wearing the young face of Saad Hariri.

Father and son make contrasting portraits. At 59 Rafik is a curly, bushy-browed giant who has, when expedient, stood up to both Israel and Syria, Lebanon's patron. In business he built a reputation for getting things done—during the 2000 election, his critics, including Beirut's state-owned TV, compared him with a mafia don. While he is proud of his humble roots—his parents were poor Lebanese farmers—Rafik has leveraged his Saudi ties to become a kingpin of Lebanon. Those ties were cemented in 1978, after he became the preferred vendor of Saudi King Fahd by building the \$150 million Taif Intercontinental Hotel for an



Generational gap: Rafik Hariri runs Lebanon, but not the family business anymore. Son Saad has weaned the company from construction jobs to higher-risk telecom investments outside the Middle East.

Islamic conference in a speedy eight months; Fahd handed him hefty airport, bridge and hospital contracts soon after. Today the Hariris are worth \$3.8 billion—22% of the nation's GDP.

Ponytailed and bearded, Saad has piloted a very different course from his dad's. Born in Saudi Arabia, he grew up in spacious homes, traveling on private jets and in the company of bodyguards. His passions are scuba diving and art collecting. But he's hardly a spoiled kid. In 1992, when Rafik first won election as PM, Saad, a recent graduate from Georgetown University with a degree in business management, stepped into Oger. He spent two years learning jobs, from handling subcontractors to acting as a foreman on construction sites.

And learning what needed changing. Dissatisfied that Oger's board budgeted for 25 computers after he requested 500, Saad waited until the vice president in charge left for vacation and

bought the remaining 475 machines. He also led the computerization of the Overseas Development Establishment, the international freight-forwarding arm of Oger. That division's revenues have since grown 10% annually.

"Business is different than it was a decade ago, when my father was in charge," Saad explains, drawing on a Cuban cigar. "Having partners was a no-no. People were always scared of the unknown. But when I took over I saw we needed to change to stay competitive. And why should we take all the risk?"

He's tried to spread some of it. In February 2001 Saad paid \$10 million for South Africa's third GSM license, invested a further \$400 million and then plunged in with a consortium of black-owned investment firms to launch mobile-phone service in that country. He partnered with British investors and Qualcomm, which put up capital and patents, to form a cellular company in Romania called Zapp Mobile in Dec. 2001.

The younger Hariri is less driven by an infatuation with high tech than by a realistic assessment that construction gigs aren't what they once were. Saudi Arabia's GDP growth fell from 4.5% in 2000 to 1.5% in 2002, and with domestic debt of \$170 billion being nearly 100% of GDP, the government slashed its budget by one-fifth. Competition has also stiffened: Last December 32 firms from Europe, Japan, South Africa, the U.S. and Saudi financiers bid for a \$2 billion, 600-mile rail link between Riyadh and the commercial port Jidda. Saudi Oger wasn't in the mix (it will share a separate \$800 million rail-link project with a state-owned firm). Then there are geopolitical issues. If the U.S. takes the lead in handing out contracts after a war in Iraq, Saad, with his Saudi-based company, doesn't expect to get much business.

The soft-spoken Saad may keep a low profile, but he's a tenacious player—as Qualcomm can attest. During the telecom boom, the San Diego-based wireless company relentlessly pursued undervalued mobile spectrums in Europe and elsewhere with a general rule: Take small stakes, usually 20% or less. Under that condition, it green-lighted a \$200 million commitment for Inquam, a British investment vehicle about to snatch Romanian provider Telemobil. Inquam's other investor was an Oger-affiliated investment fund headed by Saad Hariri. Protracted negotiations lasted six months between the two parties until late 2000, long enough to scare off a pack of eager venture capitalists courting Inquam.

Qualcomm wound up with 42% of Inquam, far more than it wanted, as well as its first Saudi partner. Saad worked with Qualcomm's lawyers, making clear he was not interested in hijacking Qualcomm's stake or wresting control of Inquam. "The fact that they had political strength in other places mattered to us," says David Vigil, vice president of business development at Qualcomm. "He took a hands-on approach from the beginning and hired very capable people to help manage this investment."

All of which is no guarantee of profits. Even though Zapp subscribers are rising quickly, from 70,000 in 2002 to an estimated 170,000 by the end of 2003, Qualcomm has so far lost \$87 million and warned in the fourth quarter of 2002 that its investment may be hurt if Inquam doesn't soon get a badly needed \$195 million infusion.

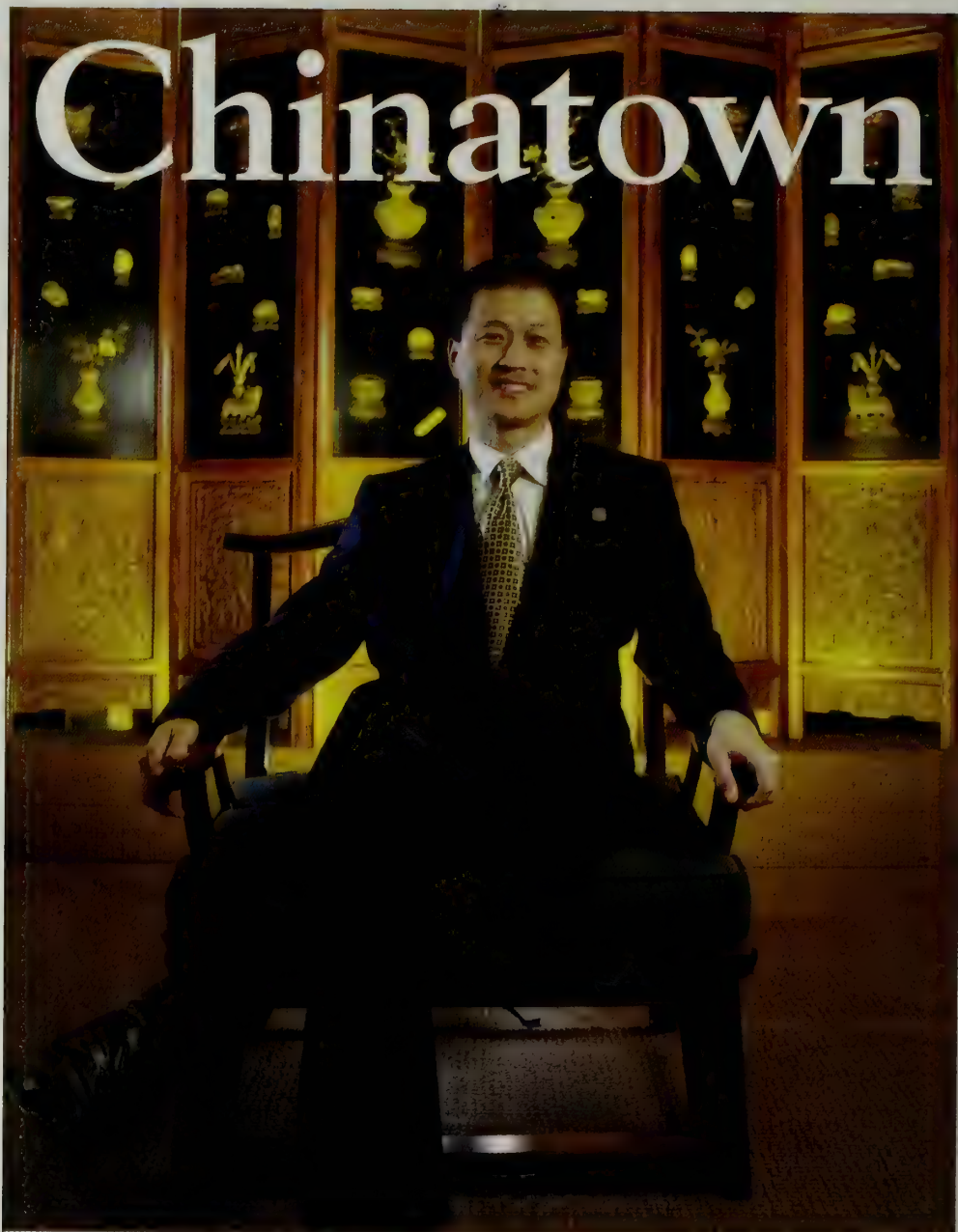
There's bleeding, too, at Cell C, the South African mobile

phone service of which Oger is majority shareholder. A bitter and drawn-out legal battle between Cell C and the losing bidder, Nextcom, ended in a settlement in which Cell C reportedly paid Nextcom \$10 million. The out-of-court agreement prevented a Johannesburg court from ruling on whether Oger won the license as a result of political connections. Saad denies breaking the rules. "Whenever you have a prime minister as a father and you are a businessman, the media comes up and raises suspicion about every move you make," he says. "I still haven't made a dime on Cell C."

Not that it's stopped him. Saad wants to add to the \$1.2 billion he's already invested in telecom and is negotiating to buy 26% of the Pakistan Telephone Co., which comprises the fixed-line, GSM and Internet divisions. Cellular licenses in Egypt and Iran, he thinks, are worth bidding on.

Will Dad return from politics to help run the company? Not anytime soon. "I haven't consulted with my father in almost two years on a single transaction," says Saad. Still, Lebanon is starting the process of privatizing its telecommunications sector, which should net \$4 billion. Saad insists he isn't looking for any favors; Rafik has told associates, according to Richard Murphy, the former U.S. ambassador to Syria, that bidding for licenses "should be open and free of cronyism."

Father and son recently got together in Paris, where the elder Hariri underwent laser surgery for kidney stones. "I wanted to be here for this," says Saad. "I can't imagine my life without my father in it." **F**



DOMINIC NG'S East West Bank enjoys an especially profitable ethnic niche in Los Angeles—but Ng wants other niches, too. BY RUSSELL FLANNERY

THE CHIEF EXECUTIVE OF ONE OF AMERICA'S MOST SUCCESSFUL SMALL BANKS OF THE past decade presides at ground-level headquarters in the sort of suburban southern California building that could be a dentist's office. In the boss' inner sanctum: worn furniture that includes the guest sofa and his desk. "I moved here in 1991 and thought, 'You know, I think I can grow to like it,'" he says.

But a visitor to the office of Dominic Ng notices something out of the ordinary for a provincial U.S. bank: photos of the boss with former Chinese President Jiang Zemin and former Premier Zhu Rongji. Paintings by popular modern Chinese artist Ting Shao Kuang hang on the wood-paneled walls. Ng's East West Bank is one of America's several dozen ethnic Chinese financial institutions—and last year, with \$50 million in profit on \$3 billion in assets, it

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made more money than any of the others.

Stockholders can credit Ng's frugal ways. Shares in Nasdaq-listed East West Bancorp, the holding company, shot up 40% last year in a bear market. The net grew 28% in the sluggish U.S. economy.

Now Ng, 44, has paid \$25 million for California-based Pacific Business Bank to add new links to the state's million-strong Chinese immigrant community. To further build on booming U.S.-Chinese economic ties, East West has opened an office in Beijing.

Success isn't ensured, Ng knows. His parents lost most of their property when they fled from the Shanghai area to Hong Kong after China's civil war; his father rebuilt with a modest bus business but gave all of his seven vehicles to employees after he retired.

Building his own career, Ng came to the U.S. in 1977 to earn an undergraduate business degree at the University of Houston. Struggling with the language and culture, he adapted in part by watching television shows such as *The Mary Tyler Moore Show* and *All in the Family*. He later became a CPA and spent more than a decade at Deloitte & Touche in Houston and Los Angeles before forming an investment advisory company that purchased East West's parent in 1991 for \$40 million on behalf of the Nursalim family of Indonesia.

In charge of the bank beginning in 1992, Ng steered it through L.A.'s rocky property market in the mid-1990s. And as Southeast Asia's financial crisis enveloped the region, he engineered East West's sale in a management-led buyout by another investment group for \$238 million in 1998 before taking the bank public in 1999. Ng, a mere hired hand when the Nursalims took over in 1991, today is the biggest individual holder, with a \$20 million stake.

One acquisition he's particularly proud of is Prime Bank. Ng paid \$20 million in 2001 for its \$120 million of assets in the western, mostly non-Chinese side of Los Angeles. Many customers come from the entertainment industry. "That's something very untraditional to the Asian market and to East West's core business," he says.

Even before that addition, Ng says, East West had nearly half of its business loans with non-Chinese customers. "However, until we bought this bank, everybody thought that we were only in the Asian community," he says. He'll probably reach out again,



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San Francisco,
Oakland, San Jose
471,000

Los Angeles,
Orange County
415,000

Toronto
380,000

Vancouver
312,000

Boston, Worcester,
Lawrence
84,000

Year 2000 population for U.S., 2001 for Canada. Sources: William H. Frey, Brookings Institution; U.S. Census Bureau; Statistics Canada.

but he wants to collect niches, not generalize. "In today's environment, if you're not a big bank, you have to stick with niches in which you can get a high margin or have a better ability to retain customers. If we play commodity types of products, we'll never be able to earn the kind of living we are [earning] now," he says.

While looking for new market segments, Ng is also trying to find additional

types of service for his existing customers. He has opened five branches in the 99 Ranch Market chain, the biggest such Asian retailer in California.

Even as he targets international trade through the guaranteed-loan program of the U.S. Export-Import Bank, he is watching the home front—literally, with mortgages for developers who build low-income housing in southern California. The longer East West grows in the state (while rivals move on or are acquired), the more it is gaining traction with municipal governments and non-profit organizations that are willing to bank with "community" institutions.

Ultimately, however, Ng's competitive edge lies in his ties to the ethnic Chinese community. In the early 1990s Chinese investors poured money into California property, and East West benefited in part by helping non-Chinese customers willing to sell to Asian buyers. Among the property bought by Chinese investors: the Biltmore and Bonaventure hotels in downtown L.A. But those were largely Hong Kong and Taiwanese buyers. The mainlanders who, he says, are starting to dominate the new flow of Chinese money into California aren't buying the same things for the moment.

"I do not see as much speculative investment—the investment coming in from China today is a lot more strategic," Ng observes. "In the 1990s some provincial enterprises or quasi-government enterprises were buying hotels downtown, and everyone was scratching their heads, and saying, 'What's the reason for it?' And they turned out to be very bad investments. There's almost none of that today. Instead, they are looking into expanding their business, thinking of how to connect with U.S. business to promote trade, or [with] biotech or environment-related science companies, in order to learn more." By getting closer to that kind of customer in Beijing and elsewhere, he can tap into that business.

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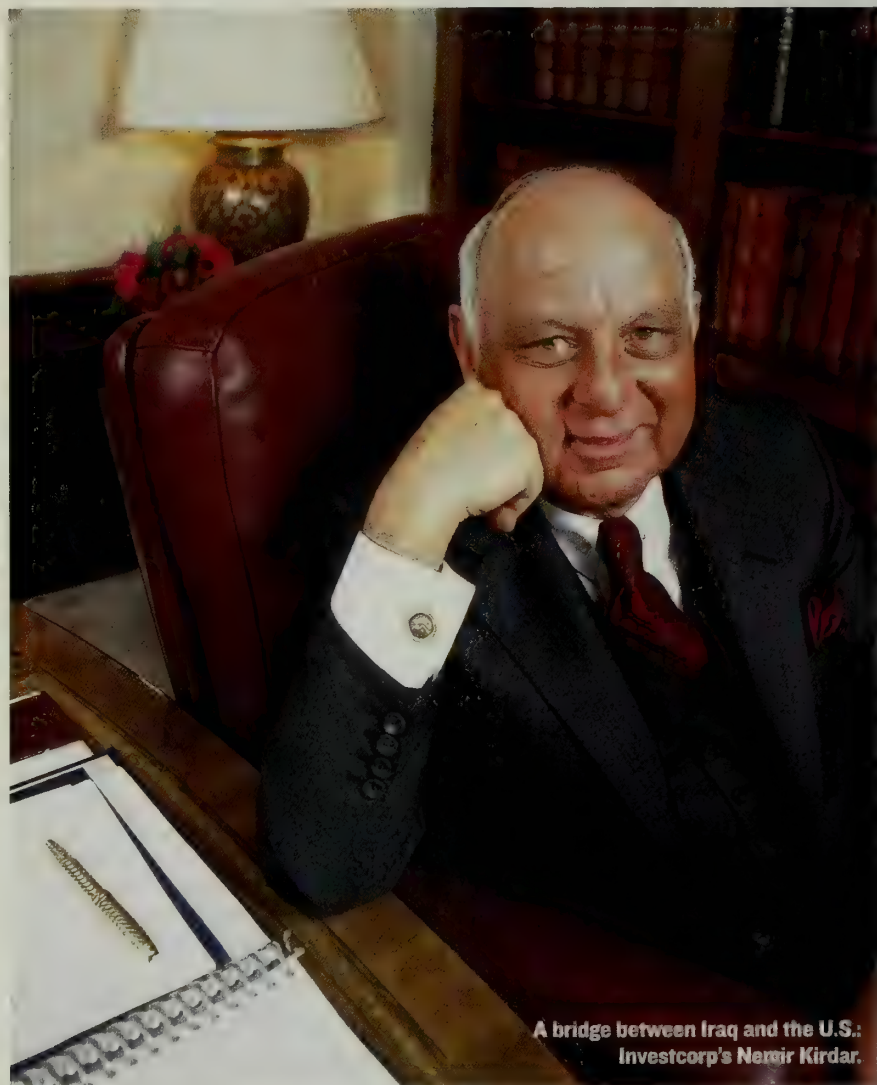
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In Times of Trouble



A bridge between Iraq and the U.S.:
Investcorp's Nemir Kirdar.

For 20 years Investcorp has produced stellar returns in Europe and the U.S. for its Arab clients. They need the firm's sage advice now more than ever.

BY RICHARD C. MORAIS

hits lately. Net income at the 260 employee bank peaked in 1999 at \$12 million; in 2001 profits were down to \$5 million. "Most recessions are sharply down and then things go up," says Kirdar. "But this is not a typical recession. We are in a long tunnel, and I don't know when it is going to let up." He adds: "We are suffering as much as our competitors."

But Investcorp differs fundamentally from many of its peers: When times get tough, it doubles up rather than bailing out. This can be seen in the case of Stratus, a Boston-based maker of "fault-tolerant" computer servers that lost its early luster as a holding.

In 1999 Investcorp and its client acquired Stratus for \$135 million, \$7 million of which was equity, the rest debt. Two years later they sold half the Stratus shares to the likes of Deutsche Bank and Intel for \$185 million, realizing a 500% return. But IT spending collapsed immediately thereafter, and Stratus found itself in a cash squeeze, unable to service its debt. Investcorp had only \$4 million in equity left, clients held the remaining \$34 million, and the new shareholders weren't keen on sinking more funds. Says Christopher O'Brien, Investcorp's head of private equity and real estate: "At that point most private equity firms would have called it a day. We had already taken out our money."

Yet Investcorp poured \$37 million of its own cash into the nose-diving com-

LAST AUGUST A FRONT-PAGE story ran in the *Financial Times* saying that wealthy Saudis had pulled \$200 billion out of U.S. markets, fearful that assets would be frozen in America's hunt for terrorist funds.

"Sensationalism," says Nemir Kirdar, 66, the Iraqi banker who represents a Who's Who of private wealth in the Middle East and Persian Gulf states. Kirdar, chief executive of Bahrain-based investment bank Investcorp, calmly insists he has not met "anybody telling us, 'I am not going to invest here or there.' They'll talk about politics and disagree with U.S. pol-

icy, but their money is different. At a time of uncertainty, [Middle East] investment abroad increases, it doesn't decrease."

Created 20 years ago as a vehicle for investing in the U.S. and Europe, Investcorp has built a world class reputation in so-called alternative investments—private equity; real estate; fund-of-hedge-funds; and venture capital. It has handled \$20 billion worth of transactions, including high-profile deals for Tiffany, Gucci and Saks. Today Investcorp manages \$8 billion of clients' and managers' funds, producing a 24% annual average return on investment.

But Investcorp has also taken some

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pany. Last year, in total, Investcorp sank \$209 million of its own capital (management owns 40% of the bank) into six portfolio companies in danger of collapsing. Most are turning the corner. Stratus cut its costs and is profitable again, and Investcorp—now speaking for some 60% of the equity—hopes to take the company public next year.

"Now is the time for Investcorp, when we gain respect and market share by showing strength when others are showing weakness," Kirdar declares. In the normally slow first six months of 2002 net income at the boutique was \$13.2 million, up from \$1.6 million in 2001.

If the Gulf's wealthy needed Investcorp during peaceful times, they need the bank's services doubly now. Today's high oil prices mean more money is flowing into the Gulf precisely at a time when political uncertainty in the region is at its greatest. Gulf investors, says Kirdar, are prudently converting petrodollars into U.S. and European investments far from the troubles.

Middle East investment in U.S. commercial real estate quintupled last year to \$1.2 billion, says Real Capital Analytics. Only Germans bought more, and Invest-

corp, with \$720 million in acquisitions just last year, dominates the list of Arab buyers. "Gulf demand for U.S. real estate is at an alltime high," says the firm's O'Brien, based in New York.

This fund flow from the Gulf also explains how Bahrain-traded Investcorp has increased its share capital to \$1.3 billion in recent months, adding \$250 million to its war chest for U.S. and European acquisitions and bringing in new Gulf institutional shareholders. They joined such clients as Saudi Arabia's Abdullah Mohamed Alirezza and Qatar's Hussain Ibrahim Al-Fardan, influential merchant bankers, and Kuwait's Mustafa Jassim Boodai, a player in transportation and construction.

Investcorp has always earned stellar returns by making bold investments in hard times. Steering former basket case Gucci through the last Gulf war and recession was classic Investcorp. Watch for similar moves this time

► By the Numbers

Investcorp might be a financial boutique, but it punches well above its weight class.

\$7.9 billion The amount foreigners spent in 2002 snapping up U.S. commercial real estate in excess of \$5 million.

9.2% Percentage of those deals handled by Investcorp and its Gulf clients.

Sources: Real Capital Analytics; Investcorp.

around. Recent buys: Aero Products International, an Illinois-based maker of air bedding; MW Manufacturers, a Virginia-based producer of windows and patio doors; and PlayPower, a Missouri-based leader in water slides, running tracks and other such recreation equipment.

"The last two years have been difficult on both sides of the Atlantic," says Kirdar, "but

it's also a time of opportunity. It's not a good time to sell; it is a good time to buy and work on companies."

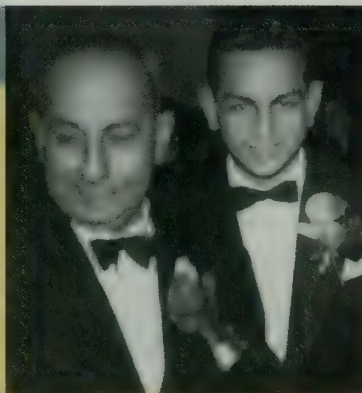
Even when the shooting starts? "The day the Iraq war starts, the window for placements will close," Kirdar concedes. "The day the war stops, the window will open again, followed by a flourishing period, probably with new people from Iraq investing with us. And if Iraq becomes a trouble spot—another Yugoslavia—then the region will allocate more to foreign investments."

After a War

Born into a privileged Muslim family from oil-rich Kirkuk in northern Iraq, Kirdar has twice had to flee the country. Each time he wound up penniless in the U.S., where he rebuilt his life. It was when he was in college in California, "washing dishes and sweeping floors," that "I first came to understand America and appreciate its values." That is why Washington should listen to what the well-connected banker has to say about a post-Saddam Iraq.

Although he's for an Iraqi regime change and the well-thought-out U.S. military planning taking place, Kirdar nonetheless warns about the "day after." The worst thing the U.S. could do is handpick Saddam's successor from among the exiled Iraqis, much like what was done in Afghanistan. "Iraqi leadership should come from within Iraq and not from outside. The U.S. government should not even be perceived as an occupying force."

After Saddam and his top 30 or so murderous henchmen are removed, the U.S. should let Iraq's competent civil servants continue running the country under a transitional administration,



Kirdar with his politician father, Amin.

with elections held two years hence under U.N. auspices. America should crucially help Iraqis craft a "constitution that guarantees human rights, the rule of law for every individual and an independent judicial system." Ethnic tensions should be defused by allowing for elected, rather than appointed, governors and mayors. General Douglas MacArthur's genius, Kirdar notes, was that he put in place a constitution but allowed the Japanese to choose their own leaders.

"This is where I get emotional," says Kirdar. Between 1921 and 1958 Iraq was a constitutional monarchy with a parliament—Kirdar's father was elected—filled with minorities. "Our first finance minister in 1921 was Jewish, and Christians were in the cabinet. Iraq had a good government under a unified kingdom."

The Arab Socialists that eventually produced Saddam Hussein ended this era when they staged the coup of 1958 and massacred King Faisal II and his entire family. A democratic Iraq, says the now-white-haired Kirdar, would return the country of his birth to its roots.

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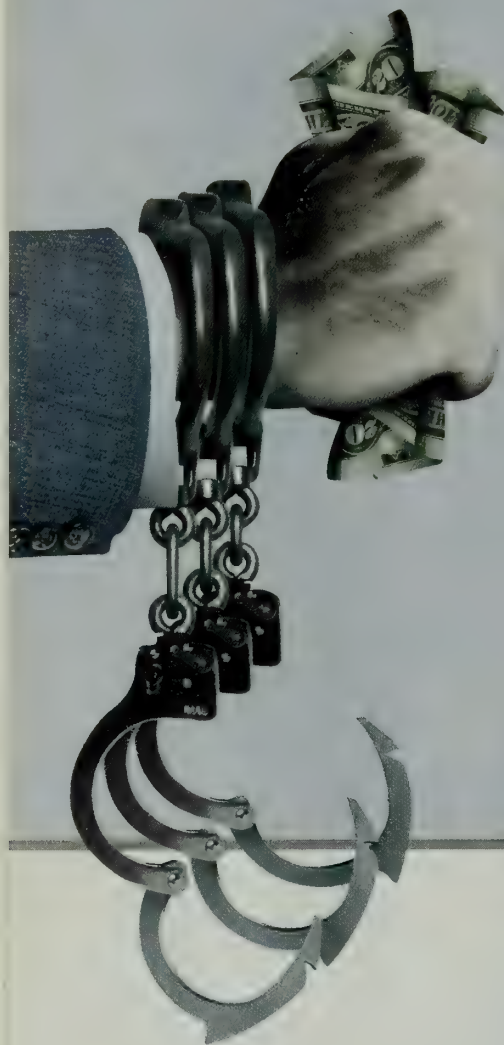
Message from the federal government:
We've got your house surrounded.
Come out with your hands up.

Should you?

Hundreds of thousands of taxpayers have bought exotic tax-dodging products in recent years. The ploys range from borderline valid to downright criminal. The IRS would like all these chiselers to turn themselves in. The inducement for the people

By Janet Novack • Illustrations By Viktor Koen





who surrender is forgiveness of some of the penalties. That carrot is coupled with a stick in the form of threatened harsh treatment, possibly including jail time, for those who hold out. Is the government bluffing about its enforcement abilities?

It sure doesn't look as if the house is surrounded. Starved of enforcement money, the IRS did face-to-face audits of only 1 in 631 returns last year. For many shady tax-reduction schemes, the time runs out for the government pretty quickly. If the tax dodge in question involves inflated deductions (as opposed to omitted income), and if outright fraud is not involved, the

Repeat Offenders

It's your "one chance for a second chance," New York warned tax delinquents in ads touting the state's second tax amnesty in 1996. But that one chance came again: In an amnesty ended Jan. 31, New York allowed payment of back income, sales or other taxes without penalties and with reduced interest—an even better deal than in 1996, when only penalties were waived.

New York isn't alone. Over the past two decades 39 states have offered amnesties, 17 more than once, according to the Federation of Tax Administrators. Louisiana waived all interest, as well as penalties, in its latest amnesty, its fourth. With states strapped for cash, the pace has picked up; 13 states staged amnesties last year.

The problem with amnesties is that they become addictive to state officials, leading to giveaways on some tax bills that would have been collected later anyway and encouraging deadbeats to put off paying until the next offer. During Maryland's 2001 penalty amnesty, taxpayers who had paid penalties earlier called to complain. "They wanted to know why they couldn't get their money back," reports Deputy Comptroller Stephen Cordi.

What about a federal amnesty? The deals being dished out by the IRS now are de facto amnesties on a limited scale, but the agency is firmly opposed to anything with that label or anything on a broad scale. In 1998 Congress' Joint Tax Committee estimated that waiving penalties and half of back interest would raise \$4.2 billion in the first year, but lose \$8 billion over ten years. Since then, however, the IRS has fallen even further behind in its collections, with accounts receivable standing at \$249 billion. The IRS closed only 1.05 million delinquent accounts with full payment in 2002, down from 1.43 million in 1997.

agents have only three years from when a return was filed to send a bill for additional taxes.

But tax chiselers cannot dismiss the risks of holding out. In our last survey of the rampant culture of tax dodging in America ("How to Cheat on Your Taxes," Mar. 5, 2001), we predicted that the IRS would find names of underpayers by extracting customer lists from tax shelter promoters. And that is just what the government has done. If you have bought a tax shelter, your name may already be on a list at

the IRS. Says Miami lawyer and tax fraud specialist Robert E. Panoff: "The IRS is definitely back, and anyone who thinks it isn't is a fool."

Texans Ruben, Daniel and David Perez, the sons of migrant farm workers, worked in the fields as children. But they went off to college, became entrepreneurs and reaped \$58 million in capital gains when Canada's Laidlaw bought out a company that had earlier merged with their health care business. Paying taxes, however, isn't necessarily part of the American dream. The broth-

"The IRS is definitely back, and anyone who thinks it isn't is a fool," says one tax lawyer.

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ers used Cayman Islands corporations, options and warrants to produce paper losses that offset all their taxable gains. When the IRS hit them with back taxes and penalties they fought it in court. Then, in December, they reversed

course: They're settling with the IRS and suing KPMG, which sold them the shelter, for fraud and malpractice. They say they paid \$4.5 million to participate in the deal (to avoid \$16 million in tax) and were assured the strategy was legal

and wouldn't be audited. A KPMG spokesman called the allegations in the suit "without merit."

Let's face it, some high-income taxpayers went a little crazy in recent years, and some tax advisers went clear off the

Let's Make a Deal

New York money manager Howard Winell, 65, was named 2000 market timer of the year by *Timer Digest*. But for reasons he won't discuss, he's had a hard time paying his taxes; he filed his 1992 through 1999 returns without paying all he owed. Last year the IRS agreed he could settle a \$574,000 bill (including interest and penalties) for \$182,000.

Lawrence Zunker, 53, of Richland, Wash., recently retired after 30 years as a utility lineman. In the 1980s and 1990s he invested with Walter (Jay) Hoyt III, who was convicted in 2001 of defrauding investors with a tax shelter scheme built around phantom cattle and overvalued ranch real estate. The \$44,000 in disallowed Hoyt tax breaks Zunker claimed has grown, with interest and penalties, into a \$240,000 tax debt. He's offered \$60,900, which would wipe out his savings but leave him his pension, his trailer home and the land it sits on. The judge at Hoyt's trial asked the IRS to let duped investors settle for back taxes, with interest and penalties wiped out. But so far the IRS is insisting Zunker can pay more.

Atlanta accountant Robert Kalaf Sr., 50, exercised nonqualified stock options as he left a tech company in 1999, generating a \$200,000 tax bill. By the time he could legally sell the restricted stock, it was worth only \$110,000. Kalaf offered the IRS \$42,000, all he says he could raise at that time. He was turned down, he says, because an IRS official figured that given his \$105,000 salary back at the tech company, he could pay more over ten years. But Kalaf has been out of work for more than a year, has sold his home and is broke. "I feel like I'm in prison. It just feels hopeless," he says.

Why would the IRS compromise with Winell, but not Zunker or Kalaf?

Traditionally, the IRS has compromised tax debts only when a taxpayer offered as much as it could realistically wring out of him through forced collection, as was apparently the case with Winell. But in 1998 Congress fiddled with the offer-in-compromise pro-

gram and, in a conference committee report, instructed the IRS to consider "factors such as equity, hardship, and public policy" in evaluating offers when doing so would "promote effective tax administration." Now tax lawyers and accountants are at odds with the IRS about Congress' intent. The program is a backlogged mess.

The IRS accepted just 16% of the 55,000 offers it processed or branded "not processable" in the first five months of fiscal 2003, down from 25% of the 48,000 it handled in the same period the year before. The IRS blames the decline in part on offer-in-compromise "mills," which it says are advising taxpayers to make unrealistic

offers. It has proposed charging a \$150 OIC user fee to discourage frivolous offers.

Private tax practitioners, however, say a bigger problem is that the IRS simply hasn't gotten the message Congress sent—that it wants offer standards liberalized and special consideration given to taxpayers caught in unfair situations—such as employees taxed on phantom stock option profits or ordinary folk victimized by slick promoters.

IRS National Taxpayer Advocate Nina E. Olson sees big problems with the program; a third of the time IRS employees don't correctly follow their agency's own rules for determining what a taxpayer can afford to pay. Moreover, she says, it's impossible to know whether too many or too few offers are being made and accepted, because the IRS hasn't compiled enough data

about who's accepted and rejected, how old their debts are or how much is later collected from those who are turned down.

But, Olson also warns, taxpayers shouldn't expect a deal simply because, for example, taxing phantom option profits doesn't sound fair. "The tax code is unfair in many ways," she says. "The IRS doesn't have the discretion to change the effect of the law." Instead, she says, taxpayers will have to come up with convincing reasons, in each case, why they deserve a break—for example, a rank-and-file worker was misled by his bosses or by financial advisers about the tax treatment of options.

Lawrence Zunker is still hoping to save his home.



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deep end. They had reason to think they could get away with their mischief. The IRS, hobbled by staff cuts and the 72 new taxpayer rights and protections Congress created in 1998, was slow to react. As promoters got more brazen the audit rate for those earning more than \$100,000 fell 73% between 1996 and 2002.

Now the day of reckoning is at hand. As of March the IRS was investigating 70 accounting, law, investment banking and other firms for peddling abusive "technical shelters" to corporations and rich individuals. These plays manipulate arcane tax rules to create enormous tax losses and deductions with little economic basis. The IRS also had under scrutiny 267 promoters of tax dodges to small businessmen, self-employed professionals and other high-income individuals. They've been pushing everything from hidden offshore accounts, bogus domestic trusts and discredited "tax protester" arguments (say, that the income tax isn't legal) to abusive insurance, deferred compensation and charitable deduction schemes.

Larry R. Langdon, commissioner of the IRS' Large and Mid-Size Business Division, says the promoter crackdown and deals for certain taxpayers go hand in hand. "It's analogous to law enforcement going after the drug dealers, but

Last year the IRS started 52% more criminal investigations of cheaters with legal source income.

not necessarily after the users," he says. "We realize that some people were duped." Adds Pamela Olson, Treasury's assistant secretary for tax policy, "We were in a really big hole because there wasn't enforcement activity on this stuff during the 1990s, and the consequence was that folks were running wild, thinking that nothing would happen. We're trying to dig our way out." So take your choice: Help the IRS dig now or risk getting buried later.

At least 300 wealthy folks bought the "basis shifting" shelter used by the Perez brothers. The list includes Global Crossing founder Gary Winnick, New Line Cinema Chairman Robert K. Shaye, the two sons of the late Treasury Secretary William E. Simon Sr. and a nephew of Senate Majority Leader William H. Frist (R-Tenn.). None of them would comment on whether they took the IRS up on a special offer it made last fall: Settle by Dec. 3 and you can keep 20% of your questionable losses. But 90% of those taxpayers the IRS has identified as using the basis-

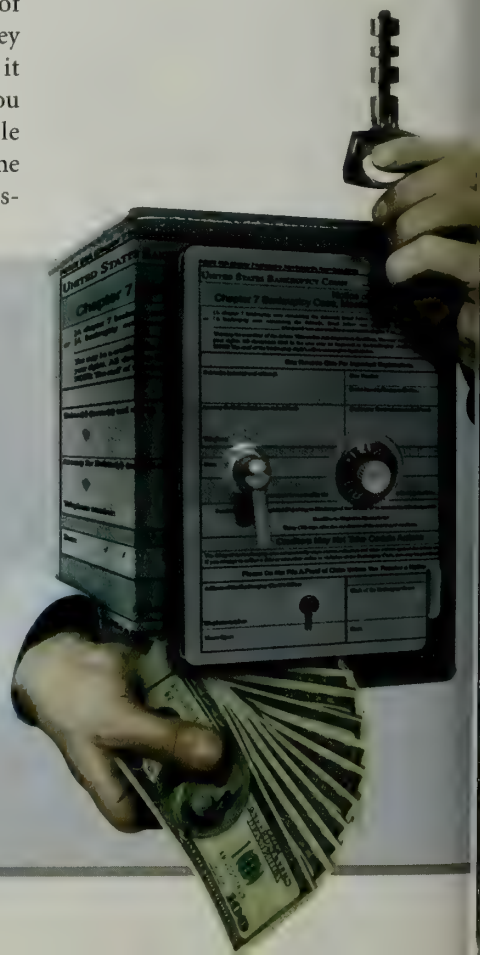
shifting shelter took the settlement deal.

Now the IRS has delivered an ultimatum to the taxpayers—it suspects they number in the hundreds of thousands—who have lied by denying they have offshore bank or trust accounts of more than \$10,000. If they confess by Apr. 15, and rat out the promoters who helped them, the IRS won't recommend them for prosecution or hit them with the civil fraud penalty—equal to 75% of the evaded tax. A taxpayer who ducked \$100,000 in 1999 tax can settle up for \$149,319, versus the \$217,758 in taxes, penalties and interest he'd otherwise owe. And he'll be spared a separate penalty—of up to \$100,000 per year—for failing to file a foreign bank account report. "It's the best deal they've offered

Bankrupt Solutions

Louis Fusaro is a producer on *The Drew Carey Show*, where he's worked since 1996. In 1999 he earned \$255,000. Yet in 2000 a bankruptcy court granted him a Chapter 7 discharge from personal liability for \$272,500 in federal back taxes for 1990 through 1996. That means the IRS can't touch his earnings to pay off the bill. Now, Fusaro, 49, is fighting an IRS claim that it can levy part of his \$250,000 Directors Guild of America pension account because it filed a Florida lien before his bankruptcy.

That's right, even high earners can walk away from old tax debts in bankruptcy, although if the IRS has moved fast enough and placed liens on your pre-bankruptcy assets, it may still be able to get at those. To be wiped out in a Chapter 7 bankruptcy, federal tax liabilities must relate to a return due at least three years and filed at least two years before the bankruptcy filing. The liabilities can't be due to fraud or the willful evasion of payment. In a Chapter 13 bankruptcy, by contrast, you can get rid of some tax debts that stem from fraud or unfiled returns, but you're expected to pay at least something toward those tax bills from current income for three years.



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in the last half-century," marvels Philadelphia lawyer Ian Comisky, a tax fraud expert.

So you've taken liberties with your 1040. Is it time to confess? Morality and conscience aside, that depends on what you did and when. Did you inflate deductions on your own, or buy into a scheme concocted by others? Did you fiddle a little or a lot? Did you do this on a 1999 return or a 2001 one?

With the IRS pouring staff into its crackdown on marketed schemes, do-it-yourself fiddlers still run a low risk of audit. "We redirected resources away from more routine cases where you pick somebody and look at whether they have too many deductions," says Charles O. Rossotti, who ended his term as IRS commissioner in November warning that the agency is seriously understaffed.

Still, if you underreported income by large amounts, say, skimming off your cash business receipts, consider this: The IRS' criminal division has gone back to investigating tax cheats with legal source income, as opposed to just chasing white-collar swindlers and drug lords. Last year it began 1,554 investigations of suspected chiselers with legal income, up 52% from 2001. And thanks to ever-tougher federal sentencing guidelines, those convicted will likely do time. Nervous? Under a voluntary disclosure policy the IRS updated in December, if the source of your income is legal and you turn yourself in before the government gets on to you, you'll almost certainly escape prosecution.

A key factor in deciding whether to confess: the statute of limitations. The IRS normally has just three years after a return is due or filed, whichever is later, to audit it. So if you filed your 1999 return on Apr. 15, 2000 and haven't heard from the IRS yet about that \$7,000 deduction you claimed for donating an

old car (remember that rusted Yugo that was towed away?), you can relax. If, however, you failed to report 20% or more of your true gross income, the IRS has six years to get to you. And if you never filed a return, or the government can prove you filed a fraudulent one, there's no time limit. Tax fraud can be prosecuted criminally for six years from your last act of evasion.

Are you worried yet? The first step, for those considering getting right with the IRS, is to consult a tax lawyer. If you've been involved in any marketed scheme, make sure it's not the attorney who blessed the deal. Unless you're already under criminal investigation (in which case an amended return could be self-incriminating) or are seeking a special deal from the IRS, your new lawyer may simply send you to a CPA who will help you prepare an amended return—a 1040X. You send it in, with the check attached, and in most cases, a grateful IRS will cash it, send a bill for interest and leave it at that. (Going to the lawyer first can give your confession attorney-client privilege, should you later need it.)

What if you can't pay what you owe? Confession may be less attractive. But the IRS does offer an installment payment plan and an "offer-in-compromise" program for folks who can show they can't pay all they owe, even over time (*see box, p. 126*). Last year 124,000 taxpayers applied for such compromises, up fourteenfold from 1990, with those accepted paying an average 12 cents on the dollar. Example: Celebrity hairstylist Oribe Canales (he did Jennifer Lopez's big hair for last year's Oscars) settled a \$380,000 bill for just \$30,000. You might also be able to rid yourself of tax debts in bankruptcy court (*see box, p. 128*).

Remember, if you amend your federal return, you'll likely owe extra to your

state, too. But if you've used a state-only dodge—say, evaded sales taxes on that De Kooning in your living room—you may be in luck. Desperate to raise quick cash, many states have been offering amnesties that waive prosecution, penalties and even some interest (*see box, p. 124*). Warning: A few states are taking the opposite tack, stepping up enforcement to fill their coffers. Minnesota is going after folks who claim they live out of state to duck its top 7.85% state income tax; it's already brought criminal tax evasion charges against seven Northwest Airlines pilots who said they were residents of Florida, Texas or Alaska. The three tried so far have been convicted.

Here are some pointers for a range of tax sinners and sins:

Common Fiddlers

You got a little aggressive, claiming charitable donations you're sure you made but can't substantiate. "People got sloppy because nobody was getting audited," observes Phoenix CPA Edward Zollars. Not to worry. "The reality is," he says, "the detection risk is still pretty low. So if you go forward and sin no more, you should be fine."

Big exception: If your tax preparer suggested the inflated deductions, you could be swept in under a growing enforcement program that targets problem preparers.



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If you forgot \$100 of interest, wait to see if the IRS picks it up through computerized matching of 1099s and sends you a letter. The IRS doesn't even bother sending a notice for some small amounts and at worst you'll owe interest. Getting an amended return prepared would cost more. What if you omitted a \$50,000 stock sale? File a 1040X. Even if you actually sold the stock at a loss, the \$50,000 counts as omitted gross income, which could (depending on your other income) double to six years the time the IRS has to audit you, points out Chicago tax lawyer Robert E. McKenzie. And if the IRS picks up this big a discrepancy through computer matching, he adds, it increases your chance of a full-blown audit.

Nonfilers

Affluent folks who haven't filed their tax returns are often wracked with guilt and fear, says Cupertino, Calif. tax adviser Claudia Hill. "They come to me from 12-step programs. I've even gotten referrals from a psychiatrist." Typical scenario: You miss filing one year because of a personal problem—divorce, illness, addiction, unemployment—and then you're too scared to file the next year. Instead you live in agony and terror, waiting for the IRS to call. It can be a long wait; the IRS worked only a fourth of the nonfiler cases it knew of last year. But the IRS' negligence doesn't excuse yours. The penalties for not filing are steep (if you owe money) and build over time. Moreover, the IRS is vowing to step up enforcement against high-income nonfilers and is referring some for criminal prosecution.



If you come in repentant and with a good sob story, you may be able to get some penalties waived. Although the statute of limitations never runs out on an unfiled return, the IRS usually demands at most six years of back returns. What if you can't pay for all six years? Don't delay. File your current return and the more recent ones. It's possible the IRS will never ask for the older returns. If, however, you want to make an offer in compromise, walk away from old tax debts in bankruptcy, or be sure you won't be prosecuted, you must first file all missing returns.



Offshore Evaders

The IRS now has enough leads that offshore cheats should be sleeping poorly. It has obtained masses of records of Americans using credit cards to tap offshore accounts, launched more than 1,000 audits and identified thousands more promising audit targets. (Example: a Cape Coral, Fla. dentist who paid bills with a MasterCard issued by a Bahamas bank, but filed no 1999, 2000, or 2001 tax returns.) The government has also indicted several high-profile offshore promoters, including Jerome Schneider, who advertised in the *Wall Street Journal* and in-flight magazines. (He's pleaded not guilty, but a lawyer who worked with him has pleaded guilty and is cooperating with prosecutors.)

Adding to the pressure: Post-Sept. 11 restrictions on foreign shell banks, requirements that stockbrokers report suspicious transactions, and new agreements with offshore tax havens all make it harder to hide assets offshore or repatriate them unnoticed, says Washington

lawyer Jack A. Blum, an adviser to the IRS on offshore evasion. "The ways people used to keep all this secret are crumbling before their eyes," he says.

But culling through credit card records and making offshore cases is time consuming. Easier to have nervous taxpayers turn in the promoters. "I only need one taxpayer to bring in a promoter and to get the investor list on that promoter," says Dale Hart, IRS deputy commissioner of the Small Business/Self Employed Division.

Even if you miss the Apr. 15 deadline to apply for the offshore deal, if you have an undeclared offshore account, get to an attorney with criminal experience. In February an appeals court ruled that the six-year statute of limitations for prosecution starts running only with the last act of evasion, and each year you fail to report an offshore account of more than \$10,000 on your 1040 counts as another, later act.

Domestic Trust Users

If you hid income in a sham domestic trust instead of an offshore one, you're not eligible for the offshore deal and its automatic exemption from civil fraud penalties; the IRS figures it already knows enough about the domestic trust pushers. But you can still avoid prosecution and possibly some penalties by confessing before the government gets to you.

If you've already gotten an audit notice, hire a lawyer and cooperate. If you don't, or you allow the trust promoters to represent you, the IRS might disallow even legitimate deductions and try to double-tax your income—





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BUSINESS TRAVELER

The Changing Nature of Hotels

Upscale corporate executives have had their troubles finding full service on the road, but great hotels and fine hotel chains have been remarkably responsive to the needs of the modern business traveler.

Ask Michael Matthews how life on the road has changed for corporate executives, and he'll tell you a revealing tale of top hats and tech butlers.

Matthews was working in Hong Kong in the fall of 1979 and planning the opening of a new luxury hotel. As befitted the tenor of the times, he knew he needed

a fleet of limousines at the hotel's disposal in order to chauffeur guests to and from meetings and other engagements.

"I flew to London and purchased eight Daimlers off the showroom floor of a dealer in Berkeley Square," he recalls. "I bought Daimlers because they had more room in the back. Guests needed that extra room so they could sit in the back seat with a top hat."

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decades, and Matthews, now the vice president of marketing for St. Regis Hotels, found himself in Shanghai, a guest at one of his own properties, the luxurious and refined St. Regis Shanghai in the heart of the Pudong district.

"I couldn't get my laptop computer to link to anything, so I called down for my butler." (Butler service has pushed the 10 St. Regis properties into the front ranks of luxury properties in major locations around the world.) "The butler came up. He'd just been at a Microsoft course, and in a few seconds, he'd fixed the problem, and I'm checking my e-mail as if I was sitting in my office."

Matthews' point is simple: Nothing and everything about life on the road for corporate executives has changed. "The basic standards of a luxury hotel have not changed," he explains. "But a hotel can't exist in a cocoon. Great hotels today have to do more, be more intuitive, change how they think. But the titans of industry still need a butler when they travel. Why? Because the butler is your aid on the road, the executive assistant at your beck and call. And if you need him to make your computer work, well, that's just part of what makes a butler invaluable."

Not every corporate traveler is a titan of industry, of course, but everybody on the road needs their hotels to be more flexible and more creative. Airlines may have lost their way when it comes to serving their passengers, but great hotels and fine hotel chains have been remarkably responsive to the needs of the modern business traveler. Limos that accommodate top-hatted dandies may not be quite the thing anymore, but service remains the hallmark of top-flight properties.

"Hotels have borne the burden of the changing nature of business travel much

better than airlines," says Heather Whitlow, corporate travel manager for a worldwide investment house. "What we ask from hotels nowadays is nearly endless. Our travelers want workout rooms and spas and good restaurants and high-speed Internet access. And that's all on top of the basics: great rooms, comfortable beds and the right location at the appropriate price."

In fact, it is in the area of Internet accessibility that hotels have made the most progress in recent years. Today's corporate executives feel hotels must keep them in touch at all times — and the smart hotels are moving fast to provide the appropriate service.

The wireless systems were deployed in lobbies, lounges, restaurants and public areas of the hotels, and complement the existing wired high-speed Internet available in guest rooms. And the Hilton properties selected for wireless access show how important the service has become for business travelers. The Hilton properties at the airports in Chicago, Oakland, Atlanta, New Orleans, Boston and Seattle were included, as were key city-center properties such as the Waldorf-Astoria in New York, the Palmer House in Chicago, the Capitol Hilton in Washington and the Hilton San Francisco & Towers.

Meanwhile, Hilton Garden Inn, Hilton's

TODAY'S CORPORATE EXECUTIVES FEEL HOTELS MUST KEEP THEM IN TOUCH WITH THEIR E-MAIL AND THE INTERNET AT ALL TIMES — AND THE SMART HOTELS ARE MOVING FAST TO PROVIDE THE APPROPRIATE SERVICE.



In March, for example, Hilton Hotels announced plans to install high-speed Internet access in all of the brand's 230 hotels in the U.S., Canada and Mexico. In fact, Hilton deployed high-speed wireless hot spots at nearly 50 of its hotels and resorts in major metropolitan areas within 30 days of its announcement.

"From cellular phones and PDAs to an exciting new level of laptop computer technology, today's travelers want and need the tools to be more productive," says Robert E. Dirks, senior vice president of brand management and marketing for Hilton Hotels. "They want the flexibility to communicate quickly and conveniently."

fast-growing chain of focused-service hotels, says all of its guest rooms will offer free high-speed Internet access by the end of the year. "It's already available free in many of our hotels," Hilton Garden Inn Senior Vice President Adrian Kurre says. "All our new hotels will have it, too. We'll be switching the remaining properties (about 150) to free Internet access over the course of the year."

Starwood Hotels has made similar plans. It is enabling wireless Internet access in more than 150 of the chain's Sheraton, Westin and W hotels in the U.S. The hot spots, to be activated by August, are being installed primarily in hotel lobbies and public areas to com

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plement in-room, high-speed Internet access already installed in most Starwood hotels.

"Frequent business travelers tend to be early adopters of new technology, especially technology that makes life on the road easier and more productive," says Steven M. Hankin, president of Starwood Technology and Revenue Systems. "We aggressively research and develop technology amenities that make sense for our guests."

Another indication of how hotels are adjusting their offerings to address the needs of modern road warriors is the rapid development of the major chains' frequent-guest plans. Frequent-guest operations now offer many earnings opportunities at a worldwide network of lodgings; rich award charts featuring free rooms, free travel and merchandise; and a wide array of "guest-recognition" benefits, such as elite levels, room upgrades and customized, in-room amenities.

"Hotels, like real estate, used to be about location, location, location," notes Theodore Emerson, who manages travel for a large, Hong Kong-based trading company. "But travelers not only want a hotel close to where they are visiting clients or suppliers, they also want a hotel that participates in their preferred frequent-guest program."

The major hotel chains have been only too happy to accommodate these savvy travelers. Hilton HHonors, for example, has grown to a network covering more than 2,400 properties around the world and across the lodging spectrum. Travelers can earn HHonors points at luxury hotels (Conrad), full-service properties (Hilton, Hilton International, Doubletree and Scandic), all-suite and extended stay properties (Embassy Suites and Home-

wood Suites) and focused-service chains such as Hampton Inn and Hilton Garden Inn. And Hilton HHonors offers the unique Points & Miles feature that allows members to earn HHonors points and airline miles on each stay. (Through March 31, HHonors members can even choose a 50% points bonus as a substitute for the airline miles.)

The Starwood Preferred Guest (SPG) program is honored at more than 700 properties in 80 countries. Among the major brands in the program: Sheraton and Westin, two of the world's best-known, full-service hotel chains; the boutique chain; the Four Points by Sheraton brand of focused-service hotels; the Luxury Collection; and even St. Regis Hotels and resorts. And Starwood offers two unique award redemption features that are much coveted by business travelers: SPG rewards have no blackout dates on free nights and no restrictions on availability. In other words, if a Starwood Preferred Guest hotel has an available room, that room is available to claim with an award. That includes weekdays, weekends and even holidays.

In the long run, however, truly great hotels are hard to quantify in simplistic terms or with a laundry list of features.

"It's a feel, it's an attitude," says Matthews of St. Regis, which has expanded from its original New York location and now operates 10 stately and distinguished properties, including the Lanesborough in London, Monarch Beach in Southern California and the Grand in Rome. "You need the desirable location, the extraordinary level of service and the exceptional facilities, of course. But the best hotels are a work of art, places where the guest knows the experience will be flawless."

Life on the Road With Laptop

Laptop computers are a crucial tool for traveling executives, but the machines tend to be cranky and demanding, and you need a balanced approach to their care and feeding.

Portable computers have emerged as the single most important tool for frequent travelers. But traveling with a portable computer is much like taking your boss on a business trip: Both tend to be cranky and demanding, both inevitably force you to change your travel patterns, and there are more than a few moments when you'll wish you'd left them back home.

However, a practical and balanced approach to life with your laptop can help minimize the problems. Here are some practical tips for traveling with your laptop right now.

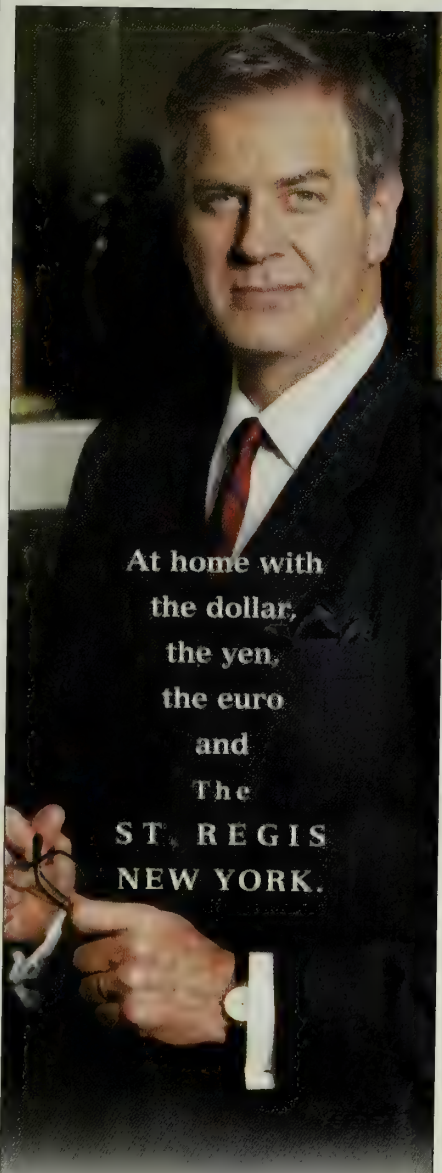
LEAVE THE BAG HOME

Carry-on rules promulgated after the September 11 terror attacks now limit travel-

ers to one piece of luggage and one "personal" item. That means it's time to dump your laptop bag. Consider replacing your primary carry-on bag with a new and larger travel briefcase that will accommodate your laptop, its supplies and all your business essentials and paperwork.

MONITOR YOUR BATTERY LIFE

The amount of time a laptop manufacturer says a battery will operate between recharging is about as reliable as mileage estimates on the stickers of new cars. Rechargeable batteries last about half as long as the laptop makers claim. So if you don't want your laptop with a six-hour battery to quit halfway through a transcontinental flight, carry an extra bat-



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tery. And be smart: Buy a power inverter. This is an ingenious device that converts DC power to AC power. Why is that important? The power point in your car and the power sockets on airplanes both use DC power. An inverter such as the Teleadapt (available from Magellans.com) converts DC power to AC power suitable for your laptop's AC power cord. It even includes the plug adapters you need for automotive and in-flight power sockets.

PROTECT YOUR PRIVACY

Even when you travel in first or business class, airplanes are alarmingly public places to do company confidential or sensitive work. And with the increasing availability of wireless hot spots in public places like coffee shops and hotel lobbies, business travelers suddenly find themselves working out in the open, where prying eyes can eavesdrop with impunity. In fact, a Harris Interactive survey recently reported that nearly half of all travelers try to shield their work for fear that someone is looking over their shoulder. The solution? The 3M Privacy Computer Filter. These ingenious devices slide on top of your laptop's monitor and narrow the viewing area so that screen data is visible only to persons directly in front of the monitor. In other words, you can still see your laptop's screen, but passersby can no longer view the monitor from the side. The filters, which come in several sizes, are easy to attach and remove. In fact, a 3M filter can be left in place even when a notebook or laptop computer is closed.

CARRY ALL THE CORDS YOU NEED

Hotel guest rooms aren't always perfectly configured for laptop use. Power

outlets, telephone jacks and the RJ-45 outlet for high-speed Internet access are not always in reasonable proximity to the desk and workspace. Be smart: Travel with a 25-foot-long phone cord, an electrical extension cord and a three-prong adapter. Headed overseas? Bring the proper plug adapter so your laptop's AC power supply will fit into the local power receptacles. These supplies are available at any good computer shop, Radio Shack or at Magellans.com. (By the way, most laptop AC adapters operate between 100 and 220 volts, so a power converter usually isn't necessary when you travel overseas.)

KNOW YOUR ACCESS CODES

Although wired and wireless high-speed Internet access is quickly becoming standard at better hotels, you should always have a dial-up backup. Make sure you know the local-access telephone numbers of your online services, Internet Service Providers and electronic-mail sys-

an incoming fax call to a guest-room phone line. If you need to receive faxes on the road, get a receive-only fax number from a service such as Efax (www.efax.com). People trying to reach you can then send a fax to that number.

BE READY FOR THE FUTURE

The future of laptop business travel belongs to wireless and in-flight Internet. When you're buying a new laptop, be sure it comes equipped with a PC card slot which will accommodate the "Wi-Fi cards" that make wireless Internet access possible. Make sure your new laptop has an RJ-45 jack, which is also known as an Ethernet port or a 10/100-network connection. Most hotels use RJ-45 cable to provide high-speed access. And Boeing is now testing in-flight Internet and e-mail on selected transatlantic flights. But you need an RJ-45 jack to connect, so make certain your laptop has one. One more thing: When you buy a new laptop, find out

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tems before you hit the road. These numbers are not easily or quickly available if you leave home without them.

GET A VIRTUAL FAX NUMBER

The nifty fax modem in your laptop will send a snappy fax once you negotiate the hotel switchboard. But receiving faxes is problematic because hotel switchboards aren't capable of automatically switching

whether it has the latest USB ports, which are known as Version 2.0.

Joe Brancatelli is the editor and publisher of JoeSentMe.com, a noncommercial Web site for business travelers. He is also the former executive editor of Frequent Flyer magazine. His commentary appears in newspapers and magazines around the country. Contact him at JBrancatelli@aol.com.



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Which are the biggest corporations? Measure in just one dimension and you get a lopsided list—with sales, a lot of retailers; with market value, fad stocks—often with little substance behind them. So we scorecard corporate America four ways: on sales, profits, assets and market value. The top 50 companies by each of these yardsticks are listed on the following pages. Visit us online at www.forbes.com/500s for separate lists of the 500 largest companies by sales, profits, assets and market value, and for more information on all 802 companies of the Forbes 500s. The Forbes Super 500s are firms with the best composite scores on all four metrics. Unfold the opposite page to get to these all-around giants.

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Is That Revenue for Real?

When companies fudge their numbers, they usually start with the top line. But it's hard to fudge cash receipts, so keep an eye on the cash.

BY ANDREW T. GILLIES

A little over a year ago Duke Energy declared it had finished its "best year ever," despite Enron's collapse and the other problems afflicting the energy business at the time. It reported revenue of \$60 billion, by that measure making it the 8th-largest U.S. corporation.

But the "best year ever" didn't look so great the following year, when a task force at the Financial Accounting Standards Board reached a new consensus on how to account for energy trading. Reversing a position taken in 1998, it decreed that energy trades should be recorded on a net, not a gross, basis. In other words, if a company trades an energy futures contract for \$20,000 and makes a \$2,000 spread on the trade, it should recognize as revenue only the \$2,000.

Whoosh. Duke Energy restated its revenues going back to 1997. With 2002 sales of \$15 billion, the company ranks 115th on this year's *Forbes* Sales 500. The stock has fallen from \$37 to \$13 over the past year.

A lot of puffery has been going into the top line. According to the Huron Consulting Group, a Chicago firm focused on corporate finance and restructuring, revenue recognition problems were behind 85 of the 381 accounting restatements of public companies in 2002. Typical mischief: recording a sale without counting for the fact that the buyer has the right to return the goods, or, worse, hasn't even taken title to them; counting revenue from deals with unfulfilled obligations (such as future consulting services).

In February the Securities & Exchange Commission filed fraud charges against eight past and present employees of Qwest Communications. The SEC says that, among other

things, Qwest cooked up false internal documents to justify treating a \$34 million equipment sale as something that could be booked in its June 2001 quarter. Qwest has overstated revenues in other ways, for example, by swapping fiber-optic capacity with other telecom companies. As of the latest tally the company had restated its 2001 revenues downward by \$1.3 billion, or 7%.

From July 1997 to July 2002 the SEC launched 227 investigations of suspected financial misreporting, 126 of them relating to revenue recognition. Improper timing of sales is the biggest offense—borrowing from the next quarter in a desperate effort to make the analysts happy for this quarter. The SEC also found 80 cases of utterly fictitious revenues and 21 cases of improperly valued revenue, such as the right-of-return cases mentioned earlier.

To book a sale you need only two things, at least in theory: to deliver goods or services, and to have a reasonable expectation of payment. Business reality, however, is rarely that cut-and-dried. And don't expect last year's Sarbanes-Oxley Act to end the ambiguities. "Accounting is purposefully gray," says April Klein, a professor of accounting at New York University. "If you make too many rules, you won't be able to capture the individuality of the company."

In short, there will always be plenty of room for fudging, and some for outright chicanery. How to protect yourself as an investor? Spend as much time with the cash flow statement as with the profit-and-loss statement that precedes it. If a company is counting dubious transactions in its revenues, in all likelihood the buyers haven't paid yet, and so the cash flow from operations will be anemic in relation to reported profit. Look back at Enron's fiscal 1999 results, for instance, and you'll see growth in sales and net income of 27% but a 25% decrease in net cash from operations. It wasn't a good sign then; keep an eye out for it now.

The Sales That Weren't

These companies had to restate their 2001 revenues downward. Some overstatements were entirely innocent—the rules changed after Kimberly-Clark reported its results, for example. For a larger list, go to www.forbes.com/accounting.

COMPANY	PRICE		2001 SALES (\$MIL)	
	RECENT	52-WEEK CHANGE	ORIGINALLY REPORTED	RESTATED
American Electric Power	\$21.95	-52%	\$61,257	\$12,767
Coca-Cola	37.70	-21	20,092	17,545
Duke Energy	12.75	-65	59,503	18,525
Dynegy	2.30	-92	42,242	9,225
El Paso	4.83	-89	57,475	13,699
Kellogg	28.73	-13	8,853	7,548
Kimberly-Clark	44.03	-30	14,524	13,288
Oneok	17.98	-7	6,803	1,916
Qwest Communications Intl	3.34	-66	19,695	18,370
Reliant Resources	4.10	-70	31,129	6,491

Prices as of Mar. 7. Sources: *Forbes*; FT Interactive Data via FactSet Research Systems.

Great and not so Great Expectations

In a soggy but not quite recessionary economy, earnings will plod ahead at most companies. But for these, analysts expect outsize moves, either up or down.

Noteworthy Forecasts

Wall Street analysts think that the 802 companies of the Forbes 500s will generate a 10% increase in 2003 per-share profits. The companies below are expected to do much better or much worse than this median for the group.

COMPANY	PRICES			2003 ESTIMATED			SALES (\$MIL)	MARKET VALUE (\$MIL)
	RECENT	52-WEEK HIGH	LOW	EPS	EPS CHANGE ¹	P/E		
Winners								
Arrow Electronics	\$14.05	\$30.49	\$8.60	\$0.57	235%	25	\$7,390	\$1,411
Chubb	46.14	78.64	45.35	4.69	304	10	9,140	7,900
Cummins	23.31	50.29	19.60	1.50	500+	16	5,853	970
EOG Resources	42.05	44.15	30.02	2.73	246	15	1,095	4,824
Fox Entertainment	25.82	29.40	16.13	0.99	297	26	10,413	23,236
MeadWestvaco	22.46	36.35	15.57	0.87	335	26	7,242	4,493
OfficeMax	5.00	8.06	3.05	0.25	213	20	4,776	625
Pioneer Natural Res	26.71	27.50	19.50	2.63	484	10	702	3,133
Valero Energy	40.49	49.97	23.15	4.98	500	8	26,976	4,314
Xerox	8.74	11.15	4.20	0.53	500+	17	15,849	6,453
Losers								
AmeriCredit	1.64	46.93	1.59	0.45	-88	4	1,125	254
Apple Computer	14.53	26.17	13.36	0.17	-48	NM	5,839	5,238
Calpine	2.66	14.99	1.55	0.42	-50	6	7,457	1,013
General Growth Prop	52.13	52.99	41.35	3.19	-43	16	975	3,251
NCR	18.60	45.49	16.92	0.44	-68	42	5,585	1,804
OM Group	7.88	73.70	4.00	1.01	-53	8	4,909	222
Santander BanCorp	13.91	19.69	11.30	0.08	-79	NM	433	592
Schering-Plough	16.30	35.75	15.65	0.82	-42	20	10,180	23,928
Tyson Foods	7.49	15.71	7.25	0.62	-43	12	23,304	2,634
Visteon	5.98	16.78	5.50	0.32	-26	19	18,395	772

Prices as of Mar. 7. ¹Versus 2002. NM: Not meaningful. Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.

Puffed-up earnings forecasts contributed to the late 1990s stock market bubble. Today, grossly fudged numbers could earn a stock analyst a visit from New York Attorney General Eliot Spitzer. Even so, the task of predicting corporate profits isn't made any easier by the war in the Persian Gulf, volatile energy prices and the erratic economy. Don't expect the Thomson First Call consensus estimates on this page to nail down 2003 results to the penny, but look to them for guidance as to which Forbes 500s companies are expected to post significant increases or decreases in profits this year.

MeadWestvaco, for example, is expected to show more than a fourfold gain in per-share profits in its first full year of operations. Formed last year via the merger of Mead and Westvaco, the Stamford, Conn.-based paper and packaging company carries a 2003 consensus earnings estimate of 87 cents a share. In contrast, Apple Computer is expected to struggle again in 2003. In its latest fiscal year, ended in September, the company reported earnings of 33 cents a share, excluding nonoperating items. Analysts expect Apple to deliver only 17 cents in 2003.

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The Best of the Biggest

The past 12 months haven't been kind to most of the Forbes 500s. But here are some blue chips noteworthy for their financial turnaround: stock market performance, gains in productivity—or bargain prices.

Turnarounds



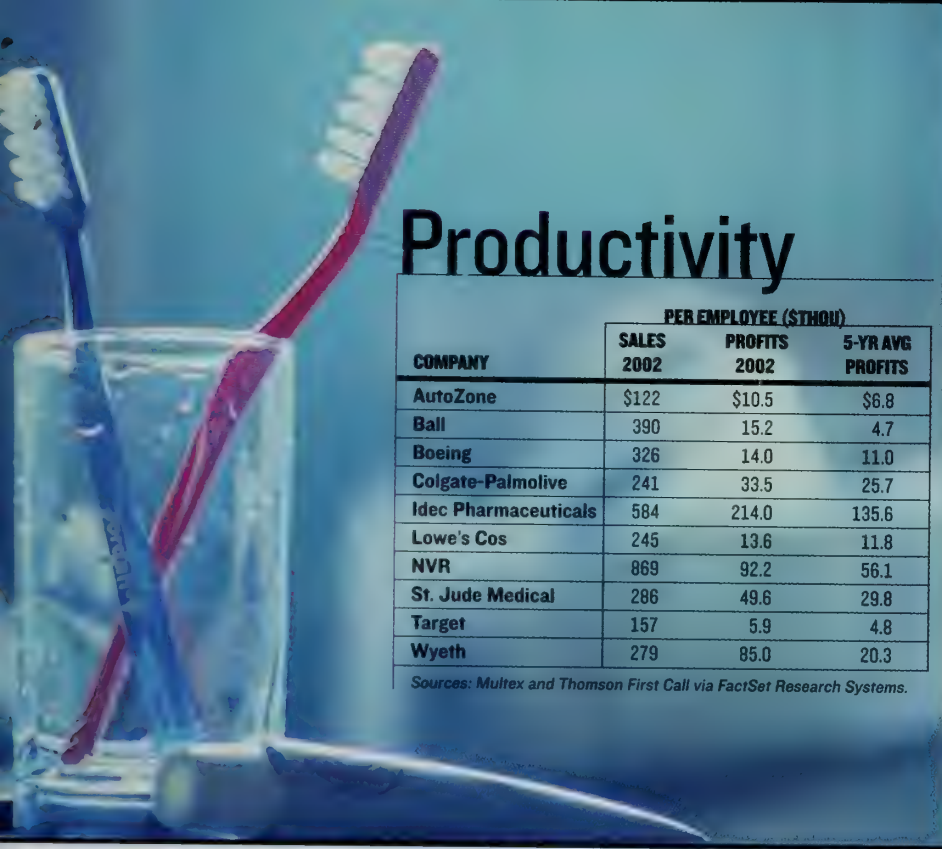
COMPANY	PROFITS (\$MIL)	EST EPS CHANGE 2002-03	P/E 2003 E
Aetna	\$443.2	52%	12
Anadarko Petroleum	831.0	43	11
Cisco Systems	3,110.0	47	24
Fisher Scientific	96.7	27	13
Gap	477.5	31	17
Intuit	186.5	22	34
Markel	75.3	171	18
Odyssey Re Holdings	171.3	32	11
Qualcomm	461.8	42	25
WR Berkley	175.0	44	■

Prices as of Mar. 7. Sources: Mulfex and Thomson First Call via FactSet Research Systems.

Aetna

Last year Aetna posted its first annual profit since 2000, earning \$443 million, or \$2.57 per share before extraordinary, on revenues of \$19 billion. In 2003 profits are predicted to reach \$3.41 per share, a level not seen since 1997, when the stock traded at its ten-year high of \$58.30. The Hartford-based insurer now sells at a 19% discount to that price and for an estimated 12 times 2003 earnings.

For a bigger version of these tables, go to forbes.com/500s.



Productivity

COMPANY	PER EMPLOYEE (\$THOU)		
	SALES 2002	PROFITS 2002	5-YR AVG PROFITS
AutoZone	\$122	\$10.5	\$6.8
Ball	390	15.2	4.7
Boeing	326	14.0	11.0
Colgate-Palmolive	241	33.5	25.7
Idec Pharmaceuticals	584	214.0	135.6
Lowe's Cos	245	13.6	11.8
NVR	869	92.2	56.1
St. Jude Medical	286	49.6	29.8
Target	157	5.9	4.8
Wyeth	279	85.0	20.3

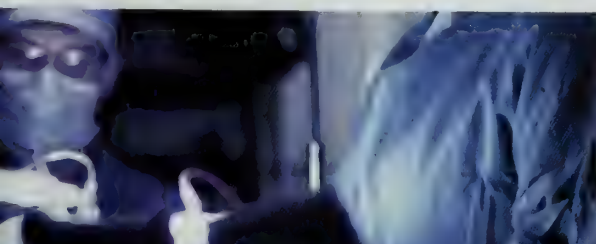
Sources: Multex and Thomson First Call via FactSet Research Systems.

Colgate-Palmolive

To increase productivity Colgate-Palmolive closed 51 facilities between 1998 and 2002, while keeping the same number of employees. This has helped increase the firm's net income per employee by 51% since 1998. Each Colgate-Palmolive worker now generates \$33,500 in profits, versus a five-year average of \$27,700.

Boston Scientific

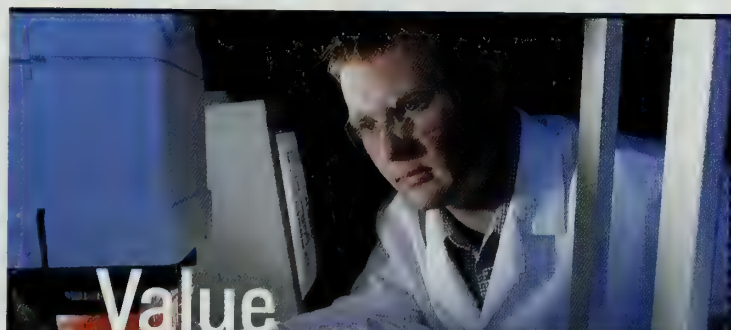
Of the 802 companies in the Forbes 500s universe, 81% sell for more than they did a year ago. Among the companies that ran counter to this tide is medical device maker Boston Scientific, which has almost doubled in price. Earnings per share are expected to climb 28% this year.



Performance

COMPANY	PRICE		P/E 2003 E
	RECENT	52-WEEK CHG	
Apollo Group	\$46.39	51%	40
Boston Scientific	42.06	83	33
Coach	36.55	52	25
Fidelity National Financial	33.39	41	7
Flagstar Bancorp	24.46	72	7
Impac Mortgage Holdings	12.02	38	6
New Century Financial	27.93	51	4
Nextel Communications	12.16	81	15
Pixar	53.11	50	35
W Holding	18.25	57	13

Prices as of Mar. 7. Sources: Multex and Thomson First Call via FactSet Research Systems.



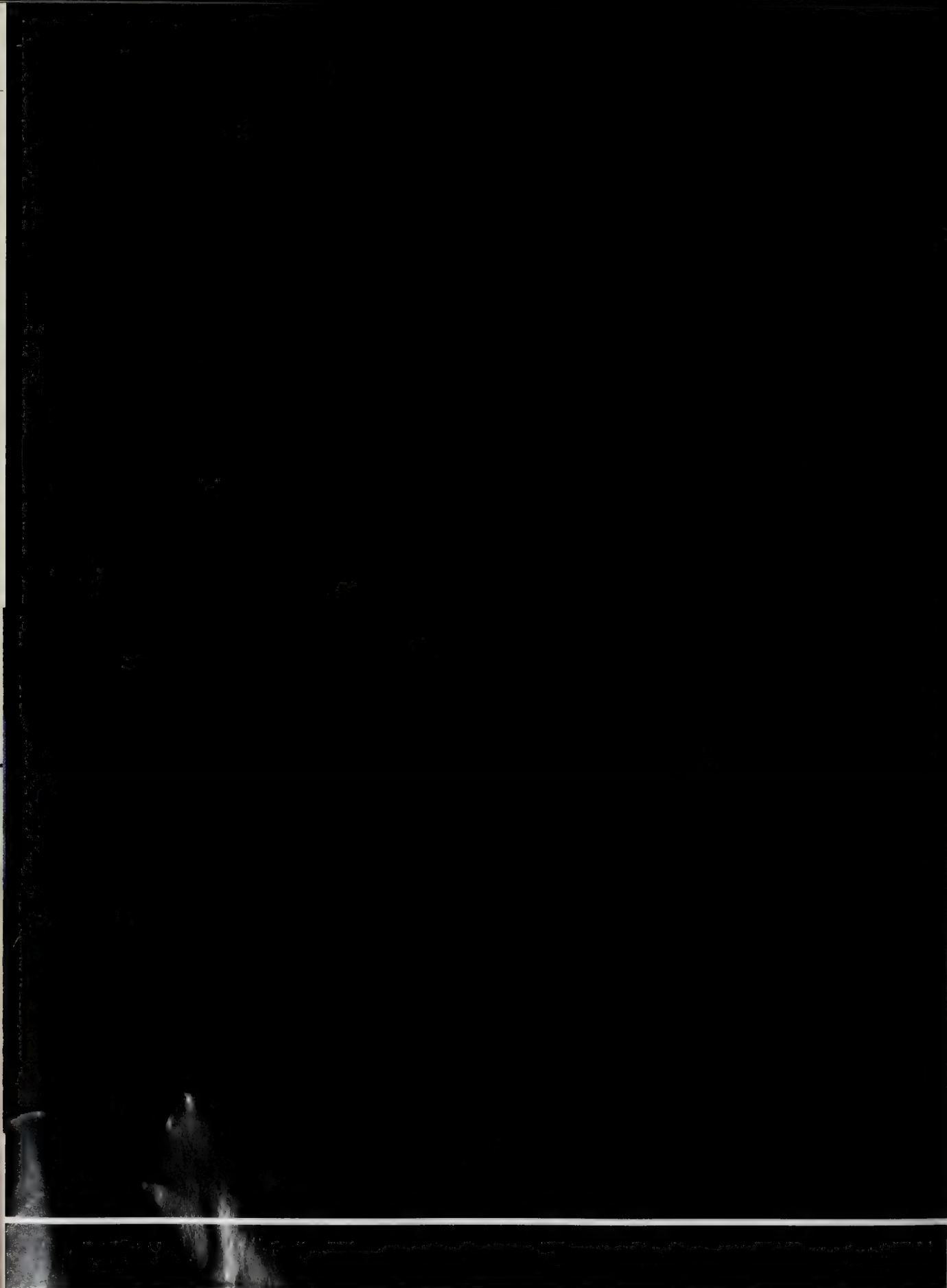
Value

COMPANY	LATEST 12 MONTHS		
	RETURN ON EQUITY	PRICE-TO- SALES RATIO	P/E
American Axle & Manufacturing	28%	0.4	6
Automatic Data Processing	22	2.9	17
Capital One Financial	23	0.7	8
Darden Restaurants	22	0.8	15
Dollar General	24	0.6	13
Electronic Arts	25	3.2	22
KB Home	27	0.4	6
Merck	43	2.3	17
PepsiCo	37	2.7	21
Wesco Intl	15	0.1	8

Prices as of Mar. 7. Sources: Multex and Thomson First Call via FactSet Research Systems.

Merck

Pharmaceutical giant Merck hits our list of possible Forbes 500s bargains. Merck's price-to-sales ratio is almost half the industry's 4.0. Its stock goes for only 17 times latest-12-month profits, compared with an average 20 for the pharmaceutical industry. Merck's return on equity for the past year: 43%.



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The Best of the Biggest

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For a bigger version of these tables, go to forbes.com/500s.

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The Bear Facts

This ranking of the giants reflects the slowdown in the economy: Combined sales of the Sales 500 is down 5%; combined value of the Market Value 500 is down 26%, or \$3 trillion. This year 802 firms made one or more lists, versus 824 last year.

Total Score

The Forbes Profits 500s rebounded in 2002 with a 13% gain. With depressed valuations, there should be some bargains in this group.

CATEGORY	2002 TOTAL	CHANGE OVER 2001	15-YEAR GROWTH RATE ¹
Sales 500	\$6.7 tril	-4.5%	6.6%
Profits 500	431 bil	13.4	8.5
Assets 500	20.5 tril	5.4	8.8
Market Value 500	8.0 tril	-26.4	14.5
Total employment of 802 companies	25.2 mil	-2.3	1.7

¹Annualized.

500s Rookies

Below are some of the corporations that newly qualify this year.

Sales

	RANK	(\$MIL)
Travelers Property Casualty	170	\$14,270
Reliant Resources	165	11,654
Premcor	207	6,773
WellChoice	210	5,106
OM Group	222	4,909

Profits

	RANK	(\$MIL)
Price Communications	226	\$382.7
WellChoice	232	376.5
Hollywood Entertainment	313	248.8
Plum Creek Timber	390	233.0
Reliant Resources	366	221.0

Assets

	RANK	(\$MIL)
Travelers Property Casualty	96	\$64,138
Reliant Resources	190	19,679
Ameritrade Holding	310	9,962
FNB Corp (Fla)	401	7,088
Redwood Trust	401	7,008

Market Value

	RANK	(\$MIL)
Travelers Property Casualty	214	\$15,370
Plum Creek Timber	309	3,960
Expeditors Intl of Washington	341	3,548
Varian Medical Systems	400	3,459
Coach	415	3,293

Source: FT Interactive Data via FactSet Research Systems.

Making the 500s

The following table shows the cutoffs for qualifying for this year's Forbes 500s lists. Since 1992 all the minimums are up at least 60%.

	(\$MIL)	COMPANY
Sales		
1992	\$1,729	Witco ¹
2002	2,797	Terex
Profits		
1992	71.7	Transatlantic Holdings
2002	135.2	Ocean Energy
Assets		
1992	2,756	Worthen Banking ²
2002	4,854	UCBH Holdings
Market Value		
1992	1,520	Worthington Industries
2002	2,636	Solectron

¹Merged into Crompton on Sept. 1, 1999. ²Merged into Boatmen's Bancshares on Feb. 28, 1995.



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[†]Based on percent return from IPO offer price through 12/31/02. ^{††}Performance based on 1-day and 30-day returns from offer price. Considers all bookrunning managers completing at least two IPOs and follow-on offerings since 1/1/2001. Source: Dealogic. Securities products and services are offered through U.S. Bancorp Piper Jaffray Inc., member SIPC and NYSE, Inc., a subsidiary of U.S. Bancorp. *Securities products and services are offered in the United Kingdom through the affiliated entity U.S. Bancorp Piper Jaffray Capital Markets Ltd., which is regulated by the FSA. **Strategic alliance: Securities products and services are offered in Israel through Nessuah Zannex Ltd. under an agreement with USBPJL.

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Giants Across America

The map below shows how many Forbes 500s companies are based in each state. Highlighted are the five states with the greatest number of companies, and the biggest firms in each, by each of our four yardsticks.

Illinois

Sales	Biggest company
\$54,069	Boeing
Profits	
\$3,295	Bank One
Assets	
\$277,383	Bank One
Market value	
\$55,423	Abbott Laboratories

Pennsylvania

Sales	Biggest company
\$41,661	AmerisourceBergen
Profits	
\$1,184	PNC Financial Services Group
Assets	
\$117,338	Comcast
Market value	
\$64,588	Comcast

New York

Sales	Biggest company
\$92,556	Citigroup
Profits	
\$14,606	Citigroup
Assets	
\$1,097,190	Citigroup
Market value	
\$184,742	Pfizer



California

Sales	Biggest company
\$91,685	ChevronTexaco
Profits	
\$5,710	Wells Fargo
Assets	
\$349,259	Wells Fargo
Market value	
\$104,769	Intel

Texas

Sales	Biggest company
\$178,909	ExxonMobil
Profits	
\$11,460	ExxonMobil
Assets	
\$152,644	ExxonMobil
Market value	
\$233,093	ExxonMobil

Change in number of companies from 1992 to 2002

More

Fewer

Same

All dollar figures are in millions.

A person is captured mid-air, performing a backflip in a lush green lawn. In the background, a white two-story house with a chimney and several windows is visible under a clear blue sky. The text "cit educate." is superimposed over the sky.

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The Bigger, the Better

After being deadlocked at number one last year, GE tops Citigroup as the biggest corporation in America. Below you will find all of this year's Forbes Super 500.

RANKINGS

SUPER RANK	2002 RANK				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	5-YEAR LOW	RECENT	EPS	P/E		
48	95	32	152	31	Abbott Laboratories	58	28	35.45	2.21	16	61,141	4,707
371	449	■	62	■	Adelphia Commun	87	◆	◆	NA	NA	NA	NA
441	■	380	■	267	Adobe Systems	87	6	27.02	1.00	27	6,060	351
395	117	445	■	■	AdvancePCS	40	4	28.66	2.10	14	3,116	350
200	208	■	105	■	AES	73	◆	3.23	0.53	6	23,800	2,604
110	83	206	84	254	Aetna	100	23	43.20	3.44	13	6,326	958
374	432	294	■	289	Affiliated Computer	57	11	43.58	2.18	20	6,178	597
70	174	112	75	102	Aflac	37	13	31.60	1.81	18	16,189	1,279
328	278	■	379	262	Agilent Technologies	162 ¹	11 ¹	13.39	-0.42	NM	5,703	-803
201	293	168	354	192	Air Prods & Chems	54	23	38.51	2.47	16	11,946	1,349
118	34	136	218	236	Albertsons	67	18	18.50	2.11	9	12,003	2,878
40	81	224	121	103	Alcoa	46	15	19.13	1.20	16	26,156	2,256
477	■	■	■	197	Allergan	101	18	66.30	2.31	29	8,425	310
318	286	338	239	■	Allied Waste Inds	32	5	8.09	0.92	9	12,046	1,743
400	439	■	133	■	Allmerica Financial	75	7	13.74	1.43	10	837	-521
36	45	62	29	74	Allstate	52	17	32.13	3.31	10	26,792	1,814
120	226	101	208	123	Alltel	92	35	42.60	3.15	14	20,902	2,994
10	12	4	43	19	Altria Group	60	19	35.82	4.62	8	111,713	17,852
404	393	■	■	187	Amazon.com	113	6	22.97	0.32	72	10,470	152
269	■	209	219	312	Ambac Financial Group	71	26	47.00	5.21	9	12,923	611
104	153	■	253	375	Amerada Hess	90	43	43.10	4.89	9	9,699	4,777
102	404	227	282	265	Ameren	47	28	39.38	2.88	14	11,775	1,334
187	122	■	99	198	American Electric	53	15	21.95	2.27	10	26,806	2,706
17	66	35	26	42	American Express	63	22	33.07	2.25	15	70,790	4,330
412	410	■	183	■	American Finl Group	46	18	19.35	2.66	7	1,890	427
1	9	14	7	9	American Intl Group	104	35	47.88	3.83	13	191,463	19,460
281	231	240	486	317	American Standard	79	22	67.43	5.62	12	6,857	879
168	27	241	271	281	AmerisourceBergen ²	83	11	52.53	3.96	13	7,846	824
465	■	■	175	■	AmerUs Group	40	14	25.75	3.75	7	1,433	258
197	294	■	149	20	Amgen	80	14	55.70	1.76	32	74,895	-491
263	97	■	115	■	AMR	90	2	2.81	-13.86	NM	14,024	-1,964
189	474	147	81	226	AmSouth Bancorp	35	12	20.65	1.80	12	14,369	1,037

Stock prices as of Mar. 7. Prices as originally reported, adjusted for splits. Enterprise value: Sum of market value of common, liquidation value of preferred and all debt, minus cash and equivalents. ■ Not on 500 list. ◆ Less than \$1 dollar. ¹ Less than five years. ² Formerly AmeriSource Health. NA: Not available. NM: Not meaningful. Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.

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SUPER RANK	2002 RANK				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	LOW	RECENT	EPS	P/E		
172	400	109	194	145	Anadarko Petroleum	76	25	45.52	4.30	11	20,383	2,598
436	■	485	489	165	Analog Devices	103	6	27.00	0.78	35	9,509	389
75	133	46	234	45	Anheuser-Busch Cos	55	23	46.93	2.48	19	47,490	3,827
432	■	348	280	■	Annaly Mortgage Mgmt	22	6	17.75	2.39	7	11,664	220
158	137	162	262	203	Anthem	76 ¹	40 ¹	60.50	4.83	13	9,903	1,062
107	29	■	32	35	AOL Time Warner	96	8	11.40	0.75	15	92,679	11,258
166	204	196	143	275	Aon	50	13	18.98	1.98	10	7,922	1,151
249	■	161	335	169	Apache	61	15	60.36	5.29	11	13,412	1,892
434	■	426	307	405	Apartment Investment	51	30	35.88	1.72	21	10,947	827
431	■	415	■	211	Apollo-Education Group	47	8	46.39	1.17	40	7,765	206
381	285	■	443	301	Apple Computer	75	12	14.53	0.17	NM	3,184	104
204	309	312	315	82	Applied Materials	58	5	11.96	0.14	NM	19,134	507
307	196	288	■	353	Aramark	28 ¹	18 ¹	21.50	1.34	16	6,224	798
133	51	194	195	234	Archer Daniels	19	8	10.90	0.72	15	12,425	1,403
348	■	253	347	371	Archstone-Smith	29	18	21.50	1.19	18	8,829	677
469	255	425	■	■	ArvinMeritor	38	9	13.69	2.39	6	2,479	560
448	234	■	419	■	Ashland	58	24	28.46	3.01	10	3,810	322
407	■	363	222	■	Associated Banc-Corp	38	18	34.23	3.02	11	6,584	409



Aflac (Super rank 79) insures more than 40 million people worldwide. In 2002 Aflac generated more than \$1 billion in new business in the U.S.

354	■	315	167	■	Astoria Financial	35	11	25.25	2.96	9	10,335	794
47	32	98	59	120	AT&T	320	17	17.51	1.87	9	33,010	9,249
164	107	■	73	112	AT&T Wireless	36 ¹	3 ¹	5.72	0.08	72	28,304	2,552
111	254	85	189	87	Automatic Data	70	30	30.77	1.79	17	17,898	1,942
214	87	228	356	387	AutoNation	30	5	12.03	1.24	10	5,018	784
277	300	197	■	261	AutoZone	89	21	65.13	4.98	13	7,706	943
350	374	304	■	298	Avery Dennison	79	39	53.25	3.14	17	6,500	593
480	201	■	■	■	Avnet	41	6	10.05	0.23	44	2,405	19
271	272	171	■	132	Avon Products	59	23	51.73	2.56	20	13,012	995
278	318	361	432	157	Baker Hughes	45	15	30.53	1.07	29	11,856	856
5	21	7	5	13	Bank of America	88	36	68.99	6.20	11	236,107	13,254
98	286	103	49	110	Bank of New York	59	21	21.50	1.80	12	11,083	1,803
26	76	27	17	43	Bank One	66	23	35.53	3.07	12	92,052	7,418
310	■	278	160	407	Banknorth Group	27	10	22.24	2.21	10	7,990	516
140	224	118	259	97	Baxter International	60	24	28.70	2.23	13	20,612	1,887
85	276	71	47	113	BB&T	41	22	32.85	2.90	11	32,004	2,266
100	258	105	21	185	Bear Stearns Cos	73	24	61.57	5.44	11	117,225	2,080
271	378	185	487	195	Becton Dickinson	50	22	33.96	2.09	16	9,773	1,006
327	430	290	■	176	Bed Bath & Beyond	38	9	31.56	1.20	26	8,987	518
37	74	33	69	47	BellSouth	54	18	21.00	1.87	11	58,852	9,548

Stock prices as of Mar. 7. Prices as originally reported, adjusted for splits. Enterprise value: Sum of market value of common, liquidation value of preferred and all debt, minus cash and equivalents. ■ Not on 500 list. ¹Less than five years. NA: Not available. NM: Not meaningful. Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.

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TELMEX improved on every opportunity that a challenging market — such as the one in 2002 — could offer. The company decided to concentrate its efforts in areas that enhanced growth and strengthened its financial position. These efforts were focused on:

- Expanding the fixed-line and data markets
- Rationalizing capital investments
- Controlling operating costs and expenses

The results of these initiatives were that:

More than 1 million lines were added for the third consecutive year, bringing the total to approximately 14.5 million lines at year-end 2002.

Line equivalents for data transmission and Internet access accounts grew at a pace of 28%, bringing the total to 2 million line equivalents and close to 1.2 million Internet users.

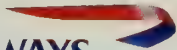
The CAPEX budget was reduced, but **TELMEX** still invested \$1.1 billion in expanding and modernizing its telecom platform during 2002.

Besides paying attention to the balance sheet, the company dealt with the economic challenges by increasing internal efficiencies, productivity and by adhering to its strict cost-control policy, controlling accounts receivable, maintaining uncollectables at a low level, keeping a debt-to-capitalization ratio similar to its telecom peers and wisely controlling cash and investments.

The achieved growth in **TELMEX's** customer base allowed the company to reach revenues of \$10.9 billion in 2002. **TELMEX** is committed to maintaining its solid financial position, and the company will continue to focus on what it can do to succeed and continue being the telecommunications leader in Mexico.

2002 RANK	2002 RANK				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE OPERATING	
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	5-YEAR LOW	RECENT	EPS	P/E	VALUE (\$BIL)	INCOME (\$BIL)
13	25	19	24	14	Berkshire Hathaway	84,000	40,800	64,800	3,142.70	21	119,260	7,654
158	77	160	346	183	Best Buy	59	10	28.09	1.97	14	8,710	1,290
465	■	373	■	303	Biogen	129	21	34.45	1.66	21	5,129	337
370	■	302	■	218	Biomet	34	11	29.85	1.09	27	7,810	452
400	360	332	■	483	Black & Decker	66	28	35.35	3.55	10	3,717	498
204	411	163	■	231	H&R Block	54	13	39.75	3.22	12	8,134	1,198
73	15	38	65	79	Boeing	71	25	25.84	1.99	13	32,733	5,308
400	242	■	495	■	Boise Cascade	47	20	22.77	0.48	47	3,334	459
405	■	461	267	■	BOK Financial	37	14	32.19	2.57	13	3,960	313
344	■	204	357	396	Boston Properties	45	23	36.76	2.67	14	9,462	482
295	482	235	■	96	Boston Scientific	50	12	42.06	1.28	33	17,855	743
61	93	47	145	41	Bristol-Myers Squibb	79	19	22.80	1.62	14	NA	NA
439	■	322	■	321	Brown-Forman	81	42	70.93	4.01	18	5,009	414
118	198	121	136	178	Burlington Santa Fe	38	19	24.67	2.16	11	23,010	2,587
247	482	202	299	173	Burlington Resources	54	26	47.14	3.57	13	14,407	1,567
352	386	■	308	284	Cablevision NY Group	92	5	18.15	-1.18	NM	15,350	979
216	239	■	154	■	Calpine	58	2	2.66	0.42	6	16,598	724
216	305	159	440	205	Campbell Soup	63	20	20.40	1.47	14	12,132	334
124	186	104	93	270	Capital One Financial	73	17	27.48	4.48	6	17,228	2,110
44	20	74	202	66	Cardinal Health	77	25	55.76	3.19	18	27,306	2,177
263	260	117	■	336	Caremark Rx	22	2	17.51	1.03	17	4,859	411
62	82	115	112	108	Caterpillar	66	30	45.80	2.26	20	33,502	3,060
455	372	396	■	399	CDW Computer Centers	86	9	41.52	2.21	19	3,299	314
70	128	106	97	129	Cendant	42	7	12.51	1.46	9	19,620	2,490
238	228	223	181	■	CenterPoint Energy	50	4	6.40	0.91	7	15,350	1,958
238	209	190	301	433	Centex	63	18	50.68	9.41	5	6,015	947
317	■	114	378	379	CenturyTel	49	21	26.47	2.14	12	7,819	998
363	351	■	130	■	Charter Commun	28 ¹	◆ ¹	◆	-2.17	NM	21,454	NA
100	494	156	80	253	Charter One Finl	35	13	29.09	2.69	11	16,131	1,080
25	7	83	48	21	ChevronTexaco	114	61	65.26	5.22	13	88,488	9,939
446	■	403	■	249	Chiron	71	14	35.80	1.46	25	6,914	357
175	194	342	103	214	Chubb	90	43	46.14	4.69	10	9,817	272
186	88	■	42	277	Cigna	137	34	42.05	6.04	7	5,925	-348
305	492	323	237	282	Cincinnati Financial	47	26	35.32	2.05	17	7,917	336
120	152	239	251	291	Cinergy	40	20	32.28	2.63	12	12,135	1,218
417	■	317	■	287	Cintas	57	23	32.41	1.45	22	6,244	543
200	180	441	■	■	Circuit City Stores	65	4	4.40	0.34	13	563	251
200	89	30	95	15	Cisco Systems	82	8	13.24	0.57	23	89,158	6,058
278	313	■	79	376	CIT Group	NA	NA	18.04	2.77	7	33,719	3,055
200	6	2	1	6	Citigroup	59	14	33.16	3.24	10	482,126	30,316
450	■	399	275	■	City National	56	26	45.64	3.83	12	2,039	283
200	214	123	126	78	Clear Channel Commun	96	20	34.76	1.29	27	32,422	2,192
280	377	212	■	180	Clorox	66	28	42.18	2.24	19	10,193	883
369	288	■	221	■	CMS Energy	50	4	4.13	0.79	5	9,475	NA
44	86	20	148	17	Coca-Cola	89	37	37.70	1.83	21	96,787	6,264
118	99	184	150	206	Coca-Cola Enterprises	42	13	18.35	1.18	16	24,795	2,409
148	192	72	402	63	Colgate-Palmolive	67	33	49.65	2.44	20	31,069	2,310
478	■	487	213	■	Colonial BancGroup	19	8	11.16	1.20	9	6,315	279

Stock prices as of Mar. 7. Prices as originally reported, adjusted for splits. Enterprise value: Sum of market value of common, liquidation value of preferred and all debt, minus cash and equivalents. ■ Not on 500 list. ◆ Less than \$1 dollar. ¹ Less than five years. NA: Not available. NM: Not meaningful. Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.



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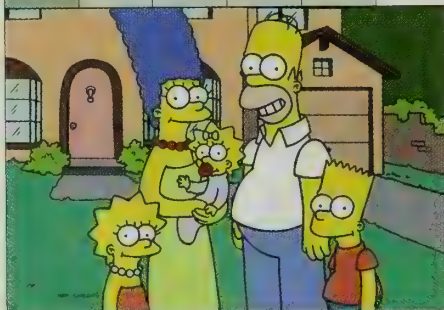


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SUPER RANK	2002 RANK				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	LOW	RECENT	EPS	P/E		
341	144	■	30	25	Comcast	75	17	28.14	0.58	49	127,706	3,691
301	421	149	60	237	Comerica	73	33	40.07	4.18	10	10,857	1,101
401	■	474	207	482	Commerce Bancorp	50	15	40.89	2.43	17	2,570	302
400	■	372	250	■	Commerce Bancshares	45	23	37.59	3.09	12	3,597	332
288	■	267	156	364	Compass Bancshares	36	16	31.63	2.64	12	10,405	597
340	469	■	288	215	Computer Associates	79	7	13.70	0.31	44	11,174	375
304	158	217	343	302	Computer Sciences	100	24	29.95	2.82	11	7,228	1,545
67	60	111	212	139	ConAgra Foods	34	15	21.74	1.63	13	18,276	2,201
408	■	276	■	307	Concord EFS	35	6	10.35	0.76	14	4,829	485
112	19	■	50	50	ConocoPhillips	70	36	51.60	4.67	11	63,784	5,060
201	267	■	64	■	Conseco	58	◆	◆	NA	NA	6,741	612
160	210	134	192	204	Consolidated Edison	56	26	39.23	2.96	13	18,017	1,555
223	339	177	233	335	Constellation Energy	52	19	27.15	2.67	10	10,623	1,398
370	215	■	295	■	Continental Airlines	65	4	5.21	-3.04	NM	5,663	386
354	462	■	281	240	Corning	113	1	5.79	-0.03	NM	9,850	-2,059
91	30	127	261	122	Costco Wholesale	61	21	29.15	1.56	19	13,732	1,493
110	202	107	58	244	Countrywide Financial	56	22	53.47	7.66	7	49,983	1,343
217	315	■	163	90	Cox Communications	58	19	29.36	0.02	NM	30,075	1,779



Fueled by its strong network ratings and its growth in television advertising, News Corp.'s **Fox Entertainment Group** (Super rank 91) saw a 16% gain in revenues over the past 12 months.

144	261	■	388	■	Crown Holdings	55	◆	4.94	0.38	13	5,055	837
102	222	195	174	280	CSX	61	20	27.08	2.34	12	16,307	1,776
100	67	126	326	160	CVS	64	22	25.34	1.93	13	10,652	1,517
178	184	■	332	■	Dana	62	7	7.40	1.22	6	4,138	729
242	346	198	451	167	Danaher	75	28	64.26	3.19	20	10,301	825
170	349	314	■	447	Darden Restaurants	30	8	17.81	1.39	13	3,808	600
292	197	301	423	378	Dean Foods ²	43	13	41.65	3.13	13	7,390	824
126	127	213	144	171	Deere & Co	64	28	40.31	2.35	17	20,752	2,114
50	35	41	217	22	Dell Computer	60	15	26.73	0.99	27	65,216	3,056
175	50	254	184	369	Delphi ³	22 ¹	7 ¹	7.00	0.93	8	5,659	1,678
206	136	■	146	■	Delta Air Lines	72	6	8.88	-6.36	NM	11,259	-161
201	366	■	209	216	Devon Energy	67	20	49.90	5.26	10	17,881	1,752
441	230	497	421	■	Dillard's	45	9	12.50	1.76	7	4,445	373
31	59	89	66	53	Walt Disney	44	13	15.72	0.67	24	48,695	3,464
337	281	308	■	402	Dollar General	26	10	10.22	0.85	12	3,933	546
68	176	86	91	94	Dominion Resources	70	35	55.75	4.72	12	38,192	4,264
481	■	345	359	■	Doral Financial	33	6	31.50	3.55	9	5,111	273
418	375	421	■	311	Dover	54	24	24.71	1.33	19	5,900	503
144	49	■	88	72	Dow Chemical	47	23	26.02	0.84	31	37,738	2,645
170	263	142	186	239	DTE Energy	50	28	41.75	3.98	11	17,160	1,864

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Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.



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2002 RANK					COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
SUPER RANK	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	5-YEAR LOW	RECENT	EPS	P/E		
40	69	48	101	49	El du Pont de Nemours	84	33	36.00	1.85	20	43,246	3,457
50	115	90	57	142	Duke Energy	48	13	12.75	1.42	9	41,770	4,432
345	319	■	141	■	Dynegy	60	◆	2.30	0.00	NM	9,553	-476
150	■	■	168	■	E-Trade Group	72	3	4.01	0.49	8	8,686	232
144	139	120	249	202	Eastman Kodak	89	24	29.47	2.56	12	10,597	2,038
174	250	289	399	314	Eaton	104	55	69.83	5.00	14	6,957	893
120	■	309	■	67	Ebay	128 ¹	4 ¹	79.90	1.33	60	23,720	431
125	328	■	445	119	EchoStar Commun	81	2	28.75	0.56	51	18,182	794
397	441	358	■	269	Ecolab	52	26	47.93	2.05	23	6,879	619
141	154	87	110	349	Edison International	31	6	12.83	1.55	8	23,852	3,788
110	147	191	70	467	El Paso	75	3	4.83	0.93	5	26,986	NA
147	■	249	■	217	Electronic Arts	72	17	54.15	2.93	19	6,977	616
100	79	84	190	233	Electronic Data Sys	77	10	14.79	1.75	9	11,266	3,315
100	297	■	330	104	EMC	105	4	7.38	0.11	67	14,480	173
90	132	91	227	83	Emerson Electric	80	41	46.92	2.62	18	24,418	2,443
101	385	387	309	499	Energy East	29	16	18.20	1.67	11	7,975	848
122	218	150	129	158	Entergy	48	16	46.00	3.85	12	22,757	2,057
174	429	119	140	164	Equity Office Prop	34	20	23.90	1.46	16	23,849	2,230
272	■	216	277	252	Equity Residential	31	17	24.23	0.80	30	13,634	1,154
300	323	366	■	255	Estee Lauder Cos	57	23	27.95	1.28	22	6,605	499
56	118	52	92	107	Exelon	71	21	49.46	4.90	10	35,925	5,000
316	138	368	■	361	Express Scripts	66	14	51.61	3.18	16	4,401	454
3	3	3	27	3	ExxonMobil	48	30	34.79	2.04	17	255,864	23,280
383	369	339	■	322	Family Dollar Stores	37	12	28.17	1.44	20	4,753	433
7	16	16	2	28	Fannie Mae	89	48	63.28	7.11	9	914,534	44,067
460	299	■	375	■	Federal-Mogul	72	◆	◆	NA	NA	4,084	258
140	110	113	229	324	Federated Dept Strs	57	21	25.29	3.14	8	9,446	2,028
95	78	122	228	115	FedEx	62	22	50.84	2.74	19	17,066	2,842
303	312	172	481	424	Fidelity National Finl	35	10	33.39	4.40	8	3,626	960
87	269	55	46	55	Fifth Third Bancorp	70	29	51.97	3.12	17	45,430	3,125
484	338	327	■	■	First American	43	10	22.50	2.39	9	1,445	615
84	233	75	131	65	First Data	45	10	33.83	1.90	18	28,100	2,370
101	■	233	157	319	First Tennessee Natl	45	16	38.72	3.18	12	7,963	893
101	■	398	286	464	First Virginia Banks	45	19	40.91	2.69	15	2,951	301
101	149	131	108	194	FirstEnergy	39	18	29.50	3.23	9	25,504	3,369
104	■	296	430	279	Fiserv	47	16	30.33	1.60	19	6,225	546
10	114	80	20	71	FleetBoston Finl	47	18	22.67	2.46	9	41,969	4,076
100	108	■	■	■	Fleming Cos	38	2	1.77	0.74	2	1,930	347
100	183	433	■	■	Fluor	63 ¹	20 ¹	30.21	2.22	14	1,687	332
170	4	■	15	124	Ford Motor	31 ¹	7 ¹	7.22	0.51	14	169,363	14,164
170	■	169	■	86	Forest Labs	56	7	51.01	2.00	26	17,272	723
260	302	176	457	272	Fortune Brands	58	19	42.27	3.54	12	7,796	965
91	172	138	151	73	Fox Entertainment	35 ¹	15 ¹	25.82	0.99	26	27,702	1,753
130	220	130	179	154	FPL Group	73	36	57.63	4.87	12	20,310	2,180
101	■	214	425	207	Franklin Resources	58	25	32.03	1.87	17	8,201	763
10	31	12	4	48	Freddie Mac	71	37	54.00	5.76	9	679,829	29,947
134	266	82	243	84	General	84	48	69.54	4.63	15	23,594	2,149
167	123	189	318	133	Gap	54	8	13.73	0.71	19	12,143	1,794

Stock prices as of Mar. 7. Prices as originally reported, adjusted for splits. Enterprise value: Sum of market value of common, liquidation value of preferred and all debt, minus cash and equivalents. ■ Not on 500 list. ◆ Less than \$1 dollar. ¹Less than five years. NA: Not available. NM: Not meaningful. Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.

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SUPER RANK	2002 RANK				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	LOW	RECENT	EPS	P/E		
368	■	■	417	91	Genentech	123 ¹	25 ¹	35.35	1.10	32	18,079	748
173	130	102	279	148	General Dynamics	111	36	55.15	5.08	11	12,386	1,795
1	5	1	6	2	General Electric	61	21	24.30	1.62	15	531,322	31,632
482	■	392	396	419	General Growth Prop	53	25	52.13	3.19	16	9,002	610
117	182	151	185	111	General Mills	53	29	42.20	2.61	16	25,807	1,752
10	2	50	10	61	General Motors	95	30	31.11	4.73	7	217,984	17,192
282	221	242	■	316	Genuine Parts	39	18	28.20	2.20	13	5,835	676
451	■	409	■	250	Genzyme-General	64	12	31.18	1.31	24	6,984	318
129	71	■	147	386	Georgia-Pacific	54	10	14.42	1.31	11	16,529	2,233
102	■	■	■	229	Gilead Sciences	40	5	36.80	0.72	51	7,367	95
128	211	77	319	51	Gillette	64	25	31.09	1.26	25	36,059	2,270
140	412	99	54	149	Golden West Finl	76	23	71.79	6.57	11	32,260	1,651
30	72	42	11	54	Goldman Sachs Group	134 ¹	55 ¹	66.68	4.29	16	165,915	4,973
320	131	■	245	■	Goodyear	77	3	4.20	0.08	53	4,623	722
372	343	326	■	357	WW Grainger	59	24	44.34	2.69	17	4,001	487
419	166	■	■	■	Great A&P Tea	38	4	4.30	-2.67	NM	922	280
200	■	179	165	355	GreenPoint Financial	52	15	42.36	5.64	8	10,945	854
275	457	146	■	150	Guidant	75	25	35.18	1.93	18	10,148	866



PepsiCo (43) just edged out **Coca-Cola** (44) in this year's Super ranking. But Coca-Cola, with more than 300 brands in 200 countries, markets four of the world's top five soft drink brands.

227	140	■	256	184	Halliburton	57	9	20.66	1.11	19	9,512	288
261	368	154	■	144	Harley-Davidson	57	13	37.30	2.22	17	11,800	1,086
340	379	262	436	389	Harrah's Entertain	51	11	32.58	3.07	11	7,292	1,108
80	103	93	22	186	Hartford Finl Service	80	29	35.02	4.65	8	12,939	1,163
77	84	108	193	76	HCA	52	17	41.82	3.12	13	30,212	3,678
145	■	305	■	345	Health Management	26	7	18.07	1.13	16	4,835	537
343	177	324	■	449	Health Net	33	6	25.07	2.50	10	2,592	472
170	223	141	345	153	HJ Heinz	62	29	29.94	2.20	14	14,911	NA
201	380	220	■	201	Hershey Foods	79	38	63.07	3.50	18	9,395	876
100	11	■	53	37	Hewlett-Packard	78	11	15.80	1.18	13	48,693	1,736
309	■	310	201	486	Hibernia	22	9	17.61	1.74	10	3,337	472
100	402	374	368	350	Hilton Hotels	36	6	11.09	0.45	25	9,909	951
12	13	22	120	34	Home Depot	70	20	22.52	1.68	13	51,813	6,733
102	75	■	128	85	Honeywell	69	19	21.75	1.65	13	22,096	1,696
128	245	207	446	■	DR Horton	29	6	17.50	3.50	5	5,427	759
52	120	59	34	130	Household Intl	70	20	27.56	4.20	7	95,888	5,905
200	■	379	231	184	Hudson City Bancorp	22 ¹	5 ¹	19.11	1.13	17	7,028	316
437	160	482	■	■	Humana	32	5	9.50	1.38	7	1,432	348
265	■	247	127	342	Huntington Bancshs	31	13	18.99	1.50	13	10,108	763
400	334	462	435	■	IKG Office Solutions	36	2	7.00	0.96	7	4,782	571

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2002 RANK					COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
SUPER RANK	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	LOW	RECENT	EPS	P/E		
137	188	100	300	92	Illinois Tool Works	82	45	58.70	3.28	18	18,628	1,812
473	■	297	■	394	IMS Health	39 ¹	13 ¹	14.50	1.02	14	3,932	511
391	73	■	484	■	Ingram Micro	55	9	10.17	0.79	13	1,573	149
28	53	29	77	11	Intel	76	13	16.01	0.59	27	99,962	9,058
498	■	230	■	■	Intergraph	20	3	18.30	0.45	41	357	33
0	8	23	35	8	IBM	139	50	77.90	4.32	18	156,565	11,175
371	■	264	■	247	Intl Game Technology	81	14	77.40	4.05	19	7,260	762
87	63	279	104	100	International Paper	60	26	34.30	1.54	22	33,410	2,632
351	274	■	285	418	Interpublic Group	58	7	8.45	0.73	12	5,612	712
201	■	391	■	166	Intuit	90	11	47.74	1.39	34	9,456	274
308	320	229	476	320	ITT Industries	71	22	52.89	3.88	14	5,446	709
216	434	193	119	293	Jefferson-Pilot	53	33	38.04	3.54	11	6,618	710
114	200	178	33	212	John Hancock Financial	42 ¹	13 ¹	27.87	3.04	9	8,797	1,205
22	33	11	82	7	Johnson & Johnson	66	33	55.30	2.62	21	166,035	11,340
153	80	144	278	241	Johnson Controls	93	41	77.08	7.12	11	9,370	1,657
371	363	258	■	391	Jones Apparel Group	47	16	27.77	3.07	9	4,368	689
407	317	268	■	■	KB Home	54	17	44.50	7.75	6	2,711	541
203	219	125	311	137	Kellogg	45	21	28.73	1.88	15	18,321	1,857
410	420	■	317	351	Kerr-McGee	74	29	41.39	3.32	13	9,311	1,375
102	275	96	45	161	KeyCorp	45	16	23.38	2.29	10	30,098	2,134
224	280	231	274	306	KeySpan	44	20	32.33	2.53	13	11,930	1,420
100	134	51	214	75	Kimberly-Clark	73	36	44.03	3.38	13	27,588	3,244
483	■	316	■	392	Kimco Realty	34	21	34.08	2.28	15	5,427	299
318	■	274	313	286	Kinder Morgan	60	12	45.30	3.22	14	12,660	343
483	■	306	■	374	King Pharmaceuticals	46 ¹	4 ¹	16.00	1.70	9	3,517	520
476	■	438	■	258	KLA-Tencor	98	10	33.82	0.65	52	5,902	225
197	37	■	248	■	Kmart	21	◆	◆	NA	NA	5,018	-2,594
413	493	287	■	315	Knight Ridder	70	41	60.45	3.84	16	6,754	730
178	195	140	437	93	Kohl's	79	17	51.26	2.25	23	18,780	1,292
70	18	76	176	168	Kroger	35	11	12.82	1.69	8	18,471	3,659
488	384	360	482	397	L-3 Communications	67 ¹	13 ¹	36.62	2.71	14	5,278	530
456	■	307	■	360	Laboratory Corp Amer	52	3	27.29	2.25	12	4,606	537
208	124	269	389	■	Lear	58	19	35.42	5.24	7	3,781	1,044
114	371	328	■	390	Leggett & Platt	29	14	18.38	1.32	14	4,362	565
52	100	97	19	126	Lehman Bros Holdings	86	11	53.99	4.13	13	235,592	2,629
208	246	166	459	420	Lennar	64	13	49.96	8.35	6	4,915	1,094
197	362	243	■	213	Lexmark International	136	22	63.51	3.16	20	7,661	655
200	■	■	94	70	Liberty Media ²	31	6	9.23	-0.39	NM	34,843	-111
88	163	34	187	26	Eli Lilly and Co	109	44	56.98	2.54	22	67,132	3,737
210	212	181	412	166	Limited Brands	28	9	11.86	1.02	12	4,836	1,112
259	344	■	39	312	Lincoln National	58	23	27.51	3.02	9	4,854	617
380	■	352	■	173	Linear Technology	75	10	30.03	0.72	42	9,241	307
471	416	331	■	438	Liz Claiborne	33	13	28.72	2.51	11	3,289	489
74	56	182	137	81	Lockheed Martin	72	16	43.56	2.19	20	24,695	2,507
71	113	95	51	191	Lowe's	73	19	43.25	6.25	7	17,510	915
57	57	61	211	166	Lowe's Cos	50	12	38.04	2.19	17	33,185	3,186
241	165	■	206	264	Lucent Technologies	84	◆	1.61	-0.32	NM	8,634	-2,379
206	■	186	109	225	M&T Bank	90	36	79.36	5.31	15	14,987	894

Stock prices as of Mar. 7. Prices as originally reported, adjusted for splits. Enterprise value: Sum of market value of common, liquidation value of preferred and all debt, minus cash and equivalents. ■ Not on 500 list ◆ Less than \$1 dollar. ¹Less than five years. ²Formerly AT&T Liberty Media Group. NA: Not available. NM: Not meaningful. Sources: FT Interactive Data, Meltex and Thomson First Call via FactSet Research Systems.

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SUPER RANK	2002 RANK				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	LOW	RECENT	EPS	P/E		
169	■	■	■	■	Manpower	46	18	29.43	1.83	16	2,811	308
181	58	170	197	228	Marathon Oil ²	41	19	23.45	2.65	9	14,793	1,542
213	291	363	232	■	Marriott Intl	82	19	30.27	1.86	16	8,674	760
171	65	241	77	■	Marsh & McLennan	68	22	39.61	2.74	15	24,206	2,633
■	188	111	274	■	Marshall & Ilsley	36	19	26.52	2.32	11	13,230	937
189	132	269	196	■	Masco	34	15	17.62	1.69	10	12,361	1,683
325	187	■	179	■	Mattel	47	9	21.00	1.26	17	8,793	950
■	285	■	147	■	Maxim Integrated Prods	90	11	34.32	0.92	37	10,980	462
135	167	272	292	■	May Dept Stores	47	18	18.85	2.00	9	10,525	1,813
341	386	■	■	■	Maytag	75	19	23.07	3.04	8	2,962	523
■	152	191	295	■	MBIA	60	24	37.19	4.46	8	7,344	948
167	49	63	99	■	MBNA	27	9	13.11	1.62	8	25,575	5,205
112	94	155	101	■	McDonald's	50	12	12.82	1.33	10	26,919	3,164
329	157	490	151	■	McGraw-Hill Cos	71	36	55.37	3.21	17	11,347	1,351
14	180	242	222	■	McKesson ³	96	16	25.70	2.30	11	8,693	1,078
248	■	255	334	■	MeadWestvaco ⁴	37	16	22.46	0.87	26	10,464	185
■	■	■	219	■	MedImmune	86	7	30.68	0.89	35	7,829	-1,020
247	63	273	32	■	Medtronic	62	24	44.10	1.64	27	54,972	2,618



2003 marks the 100th anniversary of **Harley-Davidson** (Super rank 251), and last year marked Harley's 17th consecutive year of record sales and profits.

140	336	133	96	174	Mellon Finl	52	20	21.89	1.71	13	13,812	1,364
■	■	383	293	■	Mercantile Bkshs	45	24	35.88	2.90	12	3,035	320
17	10	72	10	■	Merck	97	39	52.36	3.40	15	130,653	11,057
47	38	9	57	■	Merrill Lynch	80	18	33.93	2.72	13	199,415	6,589
36	56	16	89	■	MetLife	37 ¹	14 ¹	26.04	2.82	9	24,389	3,049
■	143	480	372	■	MGIC Investment	77	24	38.36	5.89	7	4,420	947
383	281	305	358	■	MGM Mirage	42	11	26.20	1.70	15	10,824	1,161
491	■	394	331	■	Micron Technology	98	7	7.60	-1.59	NM	4,652	310
43	5	52	1	■	Microsoft	60	20	23.56	1.02	23	246,573	14,580
264	■	172	■	■	Mirant	47 ¹	1 ¹	1.41	0.77	2	7,273	NA
350	286	■	436	■	Mohawk Industries	71	18	46.27	4.70	10	4,080	621
340	■	342	352	■	Monsanto	39 ¹	13 ¹	15.88	1.26	13	4,967	779
■	■	178	■	■	MONY Group	51 ¹	20 ¹	20.67	0.29	71	1,463	54
■	282	■	246	■	Moody's	52	22	44.58	2.00	22	6,966	563
23	53	3	40	■	JP Morgan Chase	67	15	22.29	2.15	10	266,552	8,071
38	31	8	44	■	Morgan Stanley	110	18	36.97	2.97	12	254,457	7,618
54	■	117	88	■	Motorola	62	7	8.01	0.37	22	21,227	1,245
■	298	■	30 ¹	■	Mylan Labs	29	11	27.90	1.63	17	4,914	455
205	57	28	95	■	National City	39	16	28.14	2.60	11	54,067	3,452
■	265	170	313	■	National Commerce Finl	30	13	24.19	1.77	14	8,222	484

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Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.

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RANK	FINANCIAL RANK				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	5-YEAR LOW	RECENT	EPS	P/E		
301	443	456	36	395	Nationwide Financial	56	20	23.25	2.87	8	4,710	312
490	259	■	415	■	Navistar Intl	56	15	22.66	-0.29	NM	3,579	-459
396	■	333	283	451	New York Community	32	8	28.40	2.65	11	7,495	368
300	470	277	■	243	New York Times	53	21	45.18	2.21	20	7,871	698
244	240	269	393	238	Newell Rubbermaid	55	18	25.55	1.82	14	9,833	910
367	■	■	324	181	Newmont Mining	35	13	25.96	0.96	27	11,558	714
101	206	64	169	131	Nextel Commun	83	3	12.16	0.83	15	25,724	3,131
184	175	128	444	127	NIKE	67	26	49.10	2.76	18	13,427	1,386
212	265	237	203	348	NiSource	34	13	16.91	1.65	10	13,711	1,750
182	271	200	177	223	Norfolk Southern	42	12	19.05	1.38	14	18,232	1,687
257	■	218	171	309	North Fork Bancorp	43	14	31.57	2.80	11	10,757	698
400	316	459	310	■	Northeast Utilities	25	13	14.20	1.13	13	7,685	947
211	■	203	90	251	Northern Trust	92	28	29.82	2.00	15	3,304	935
111	98	183	86	116	Northrop Grumman	135	43	82.73	3.82	22	24,961	1,817
325	187	■	252	■	Northwest Airlines	65	5	7.34	-4.23	NM	6,489	57
486	348	434	■	430	Nucor	70	30	40.19	2.14	19	4,178	618
490	465	259	■	■	NVR	391	23	307.05	42.20	7	2,307	553
135	244	86	205	143	Occidental Petroleum	31	15	30.15	3.07	10	17,395	3,077
300	157	271	■	406	Office Depot	26	6	10.86	1.06	10	2,966	700
362	■	222	351	422	Old Republic Intl	35	11	26.85	3.44	8	3,342	570
168	235	139	276	170	Omnicom Group	108	37	51.19	3.68	14	11,181	1,252
104	190	43	321	30	Oracle	46	3	11.06	0.41	27	55,745	3,746
450	289	■	320	■	Owens-Illinois	49	3	8.35	1.80	5	7,324	1,299
453	321	343	■	■	Oxford Health Plans	52	6	27.64	3.97	7	2,135	562
236	249	238	352	285	Paccar	53	24	47.70	3.19	15	8,365	1,012
446	161	491	■	■	PacifiCare Health	98	10	21.89	4.27	5	831	371
426	342	446	325	■	Park Place Entertain	15 ¹	6 ¹	6.99	0.54	13	7,746	1,015
301	268	492	486	333	Parker Hannifin	55	27	38.39	2.14	18	5,944	645
330	■	284	■	163	Paychex	61	15	26.31	0.78	34	9,814	434
150	41	219	196	305	JC Penney	79	9	19.00	1.62	12	10,298	1,635
483	■	400	■	308	PeopleSoft	57	12	16.05	0.64	25	4,704	354
336	364	364	257	460	Pepco Holdings	32	15	17.36	1.78	10	11,099	785
203	193	210	314	297	Pepsi Bottling Group	35 ¹	8 ¹	18.90	1.63	12	11,275	1,349
42	61	26	158	24	PepsiCo	54	28	38.50	2.20	18	69,126	4,842
20	40	6	76	5	Pfizer	50	25	29.98	1.80	17	197,186	12,783
214	141	■	106	310	PG&E	35	7	13.05	1.86	7	19,104	2,441
81	129	60	198	33	Pharmacia	64	30	41.52	1.78	23	55,579	2,910
480	■	■	142	■	Phoenix Cos	20 ¹	7 ¹	7.12	0.57	13	267	-161
408	■	355	358	463	Pinnacle West	53	22	31.79	3.00	11	7,297	941
357	359	192	350	227	Pitney Bowes	73	24	30.89	2.41	13	12,767	1,063
476	■	329	■	366	Plum Creek Timber	34	19	21.42	1.16	19	5,630	443
91	270	81	55	128	PNC Financial Services	76	33	45.52	3.93	12	19,968	2,034
250	■	251	107	339	Popular	38	18	33.60	3.01	11	15,727	771
388	235	■	377	224	PPG Industries	77	36	43.64	3.07	14	9,527	1,158
399	298	248	215	276	PPL	62	18	35.08	3.61	10	15,988	1,727
216	308	184	392	199	Praxair	61	30	52.45	3.52	15	11,875	1,358
491	■	226	■	■	Price Communications	28	2	11.80	NA	NA	1,177	48
121	203	215	40	188	Principal Financial	32 ¹	20 ¹	27.82	2.31	12	10,946	772

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SUPER RANK	2002 RANK				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	5-YEAR LOW	RECENT	EPS	P/E		
21	26	15	78	12	Procter & Gamble	118	53	80.96	4.05	20	117,418	9,232
234	227	174	173	177	Progress Energy	53	28	39.91	3.69	11	21,164	2,104
243	191	135	244	135	Progressive	60	15	54.79	3.55	15	13,416	1,140
416	■	311	455	337	ProLogis	26	17	25.07	NA	NA	7,530	584
400	■	408	164	■	Protective Life	41	19	26.65	2.79	10	2,621	303
479	■	■	200	■	Provident Finl Group	56	20	21.95	2.39	9	5,900	346
333	382	351	204	■	Provident Financial	69	2	5.53	0.60	9	2,329	297
96	55	377	14	98	Prudential Financial	36 ¹	25 ¹	29.86	2.29	13	30,952	64
167	216	245	138	220	Pub Svc Enterprise	52	20	34.07	3.76	9	22,838	2,097
408	■	257	488	342	Public Storage	39	21	33.14	3.07	11	6,671	524
238	238	208	411	470	Pulte Homes	60	15	46.97	7.90	6	4,731	841
228	438	199	407	60	Qualcomm	200	5	35.18	1.38	26	26,312	1,292
232	381	266	■	288	Quest Diagnostics	96	7	52.45	4.10	13	6,243	724
202	109	■	116	283	Qwest Communications	66	1	3.34	-0.28	NM	28,015	4,077
427	■	211	475	435	Radian Group	56	13	33.18	4.80	7	4,197	633
287	347	299	■	401	RadioShack	80	17	20.11	1.58	13	3,694	510
187	101	■	159	159	Raytheon	77	18	25.20	1.72	15	17,134	2,118
173	405	145	71	230	Regions Financial	46	18	32.14	2.86	11	14,673	1,126



Eastman Kodak Its film business isn't dead, and the 111-year-old Rochester, N.Y. company is gaining ground in digital photography and imaging. Last year Kodak's profits rose tenfold, to \$770 million, and its Super rank jumped from 240 to 144.

200	155	344	180	■	Reliant Resources	38 ¹	◆ ¹	4.10	0.93	4	7,949	1,135
300	106	■	439	■	Rite Aid	51	2	2.38	0.01	NM	5,242	442
274	273	201	226	421	RJ Reynolds Tobacco	72 ¹	16 ¹	38.20	4.66	8	5,389	963
308	390	318	■	363	Rockwell Automation ²	65	12	21.53	1.15	19	4,778	503
608	■	325	■	413	Rockwell Collins	28 ¹	12 ¹	18.32	1.34	14	3,418	429
278	287	362	322	273	Rohm and Haas	49	24	27.60	1.69	16	10,058	889
193	253	275	100	328	Safeco	56	18	33.92	2.66	13	6,467	617
184	39	■	210	208	Safeway	63	18	18.55	2.48	8	16,933	2,484
301	■	292	■	209	St Jude Medical	47	10	46.05	1.74	27	7,752	445
177	199	340	85	235	St Paul Cos	57	21	31.00	3.78	8	10,311	-537
300	179	■	376	■	Sanmina-SCI ³	61	2	4.15	0.05	NM	3,092	213
90	94	73	236	117	Sara Lee	32	13	19.01	1.59	12	21,322	2,326
113	24	9	37	23	SBC Communications	60	20	20.49	1.66	12	97,447	17,201
90	178	44	232	69	Schering-Plough	61	16	16.30	0.82	20	22,209	2,941
277	355	■	87	172	Charles Schwab	52	6	7.14	0.35	20	7,638	834
450	■	389	■	268	EW Scripps	88	39	77.96	3.10	25	7,004	481
162	28	58	68	263	Sears, Roebuck	65	19	19.90	4.88	4	34,980	2,926
196	277	158	199	327	Sempra Energy	29	16	22.89	2.68	9	10,463	1,583
462	207	■	■	■	7-Eleven	21	7	6.88	0.69	10	2,174	432
338	306	272	■	370	Sherwin-Williams	38	17	26.21	2.24	12	4,901	670

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Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.

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RANK	FINANCIAL DATA				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	5-YEAR LOW	RECENT	EPS	P/E		
101	■	165	223	260	Simon Property Group	37	20	34.48	1.71	20	17,429	1,419
102	459	116	61	105	SLM	111	28	104.90	5.39	20	63,498	1,827
103	229	■	■	■	Smithfield Foods	27	7	-18.08	1.54	12	3,854	329
104	237	■	292	427	Smurfit-Stone	26	9	12.95	0.63	21	9,246	872
105	146	■	302	500	Solelectron	53	1	3.19	0.03	NM	4,457	-467
106	170	70	114	80	Southern Co	36	20	28.43	1.84	16	39,435	3,739
107	446	137	67	182	SouthTrust	27	10	26.30	2.02	13	20,004	1,105
108	295	320	341	155	Southwest Airlines	23	7	13.51	0.39	35	11,588	820
109	■	255	89	388	Sovereign Bancorp	26	6	13.72	1.42	10	12,139	816
110	116	78	161	146	Sprint FON	76	7	11.90	1.39	9	16,329	4,488
111	150	■	162	381	Sprint PCS	67 ¹	2 ¹	3.64	-0.43	NM	22,097	2,880
112	314	293	406	481	SPX	93	18	34.67	3.63	10	5,578	726
113	156	205	461	200	Staples	36	10	17.91	1.05	17	8,991	950
114	431	336	■	189	Starbucks	26	7	22.90	0.68	34	8,656	540
115	397	250	264	325	Starwood Hotels	55	17	23.93	0.96	25	10,333	1,083
116	324	92	44	140	State Street	68	24	35.10	2.30	15	40,866	1,131
117	476	252	■	125	Stryker	69	16	66.81	2.11	32	13,703	733
118	148	■	246	162	Sun Microsystems	65	2	3.18	0.00	NM	9,867	298
119	■	263	■	296	SunGard Data Systems	35	8	18.75	1.27	15	5,087	815
120	143	■	429	479	Sunoco	44	22	36.59	3.56	10	4,836	279
121	236	69	31	109	SunTrust Banks	88	42	55.38	4.84	11	33,738	2,768
122	85	337	442	■	Supervalu	31	12	13.15	2.11	6	4,080	831
123	■	397	■	259	Symantec	48	4	43.54	1.91	23	6,735	420
124	■	244	188	278	Synovus Finl	35	14	19.45	1.36	14	7,717	712
125	64	124	427	106	Sysco	33	10	24.45	1.17	21	17,956	1,507
126	22	54	123	68	Target	46	16	26.75	2.04	13	36,191	4,476
127	■	330	266	458	TCF Financial	55	16	40.15	3.49	12	5,647	385
128	104	490	■	■	Tech Data	56	15	22.07	1.89	12	1,376	280
129	■	261	355	■	TECO Energy	33	10	10.15	1.51	7	6,357	706
130	352	■	166	■	Temple-Inland	78	33	39.74	1.73	23	10,877	477
131	119	79	240	210	Tenet Healthcare	53	10	17.21	2.45	7	12,714	3,024
132	217	■	225	59	Texas Instruments	100	11	16.30	0.40	41	28,640	1,977
133	168	246	216	329	Textron	98	31	34.02	2.98	11	11,788	1,157
134	■	273	■	456	Thermo Electron	43	13	18.15	1.11	16	3,565	212
135	102	44	220	36	3M	132	66	124.50	5.94	21	51,951	3,460
136	151	155	■	193	TJX Cos	22	7	16.63	1.25	13	8,996	1,171
137	■	225	260	347	Torchmark	50	19	35.63	3.83	9	5,105	618
138	159	334	336	■	Toys "R" Us	31	8	8.17	1.17	7	3,640	788
139	126	354	56	114	Travelers Property Cas	NA	NA	15.31	NA	NA	18,808	-61
140	301	148	235	121	Tribune	61	22	43.31	2.12	20	18,899	1,472
141	181	■	118	300	TXU	57	10	16.31	2.00	8	23,642	2,014
142	70	279	303	■	Tyson Foods	26	7	7.49	0.62	12	7,272	1,225
143	125	■	153	■	UAL	98	◆	1.03	-24.08	NM	11,264	-1,728
144	142	68	113	118	Union Pacific	68	34	54.90	4.53	12	31,249	3,530
145	■	173	102	204	Union Planters	43	17	27.34	2.73	10	10,859	943
146	■	175	83	271	UnionBanCal	50	18	41.16	3.79	11	4,185	885
147	291	341	492	452	Unisys	50	6	9.17	0.78	12	3,519	721
148	42	28	134	29	United Parcel Service	77 ¹	46 ¹	55.04	2.34	24	66,555	5,560

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RANK	FINANCIAL				COMPANY	STOCK PRICE			2003 ESTIMATE		ENTERPRISE VALUE (\$mil)	OPERATING INCOME (\$mil)
	SALES	PROFITS	ASSETS	MARKET VALUE		5-YEAR HIGH	5-YEAR LOW	RECENT	EPS	P/E		
85	111	25	23	46	US Bancorp	35	15	20.68	1.99	10	67,867	6,674
433	257	■	373	■	US Steel ²	43	11	11.35	1.65	7	2,579	373
44	48	39	122	62	United Technologies	88	36	57.12	4.71	12	30,677	4,384
86	62	67	230	64	UnitedHealth Group	101	15	85.40	5.21	16	26,208	2,441
130	307	260	294	248	Unocal	47	25	25.98	2.14	12	10,921	1,827
131	185	234	74	445	UnumProvident	63	12	12.61	2.48	5	5,371	956
434	256	■	381	■	US Airways Group	83	◆	◆	-5.97	NM	NA	-1,022
150	345	37	224	134	USA Interactive	34	7	24.24	0.75	32	16,289	509
240	52	■	238	344	Valero Energy	53	17	40.49	4.98	8	10,860	920
8	10	17	25	16	Verizon Commun	70	26	34.06	2.74	12	189,677	25,673
350	311	236	■	380	VF	55	21	34.50	3.63	10	3,953	709
29	65	40	41	27	Viacom	76	24	36.22	NA	NA	74,903	6,086
322	92	■	287	■	Visteon	22 ¹	6 ¹	5.98	0.32	19	1,346	550
377	■	300	338	382	Vornado Realty	47	26	33.82	2.90	12	9,868	788
23	69	23	13	39	Wachovia ³	66	24	35.11	3.01	12	109,463	7,180
6	1	8	38	4	Wal-Mart Stores	70	24	48.12	2.03	24	237,735	15,053
82	44	88	306	58	Walgreen	46	16	28.39	1.14	25	28,992	1,992
11	90	21	18	52	Washington Mutual	43	14	34.70	4.34	8	109,419	9,611



Ford Motor (Super rank 120) may be struggling, but last year marked the 16th consecutive year that its Ford brand led the U.S. market in total sales of passenger cars and light trucks.

420	■	353	■	256	Washington Post	764	467	678.73	25.31	27	7,430	550
106	162	110	182	136	Waste Management	60	13	20.00	1.33	15	21,495	2,832
477	■	442	247	■	Webster Financial	40	18	35.40	3.58	10	5,920	281
385	310	232	■	■	WellChoice	NA	NA	21.20	2.20	10	1,331	344
157	96	129	284	156	WellPoint Health	89	24	69.38	5.11	14	10,365	1,391
73	46	13	12	18	Wells Fargo	56	28	45.55	3.65	13	139,511	13,103
139	91	319	125	152	Weyerhaeuser	75	36	47.60	2.00	24	28,039	2,288
117	164	349	422	423	Whirlpool	80	32	46.97	6.14	8	4,830	1,097
290	290	■	98	■	Williams Cos	54	◆	4.27	0.19	23	18,272	1,717
410	145	460	■	■	Winn-Dixie Stores	59	10	11.76	1.42	8	2,055	533
177	413	429	361	491	Wisconsin Energy	34	17	23.30	2.29	10	7,542	847
184	■	221	■	138	Wm Wrigley Jr	59	30	51.95	2.00	26	11,494	660
40	121	18	135	38	Wyeth ⁴	70	28	34.97	2.45	14	53,529	3,719
241	173	■	124	338	Xcel Energy	32	5	11.17	1.27	9	21,823	NA
192	105	454	139	257	Xerox	64	4	8.74	0.53	17	20,061	2,101
489	■	■	■	221	Xilinx	98	7	22.73	0.67	34	7,597	221
437	■	■	■	141	Yahoo	250	8	19.62	0.30	65	11,306	198
227	232	150	473	245	Yum Brands	37	12	23.00	1.99	12	9,062	1,343
460	■	303	■	190	Zimmer Holdings	46 ¹	25 ¹	45.21	1.53	30	8,961	426
289	■	283	132	373	Zions Bancorp	76	32	42.55	3.89	11	6,291	635

Stock prices as of Mar. 7. Prices as originally reported, adjusted for splits. Enterprise value: Sum of market value of common, liquidation value of preferred and all debt, minus cash and equivalents. ■ Not on 500 list. ◆ Less than \$1 dollar. ¹Less than five years. ²Formerly USX-US Steel. ³Formerly First Union. ⁴Formerly American Home Products. NA: Not available. NM: Not meaningful. Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.

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Wider-Fi

A little-known standard called Wi-Fi turned into the hottest technology of the year and shook the wireless industry to its core. Now its successors hope to leave Wi-Fi in the dust.

BY SCOTT WOOLLEY



T

HAT SOUND YOU HEAR, THAT INCESSANT TAPPING ON LAPTOPS AT THE CORNER CAFE, THE local park and the airport lounge, is music to the ears of the beleaguered tech industry. Wi-Fi, the magical wireless link that lets all those tappers blast data short distances at 200 times the speed of a dial-up modem for no extra cost, has turned into the only bright note punctuating Silicon Valley's indigo mood. Only three years old, Wi-Fi, a once-obscure wireless standard with the ungainly real name of IEEE 802.11, went supernova last year, selling 18 million connections—one of the fastest adoption rates of any consumer technology in history. Tens of thousands of Wi-Fi "hotspots" have sprouted around the country. Some McDonald's now offer a free link with the purchase of a combo meal. In March Intel kicked off a \$300 million-plus marketing blitz for a new brand, Centrino, that packages together a new laptop microprocessor with a Wi-Fi receiver.

Now it looks like history may repeat itself. In January the industry group that spawned Wi-Fi released a new standard that may put the old one to shame. It extends the wireless range of Wi-Fi from roughly 300 feet to several miles and lets signals bounce around obstacles and penetrate walls; it also fixes security flaws and adds high-quality phone calls. This new standard is dubbed 802.16a by the Institute of Electrical & Electronics Engineers, which disdains catchy names. Some are calling it Wi-Max, but a better tag might be Wider-Fi. Meanwhile, a rival

WANT WI-FI WITH THAT?

Short-range connections are getting so common that even McDonald's offers links with its value meals.



group at IEEE is working on 802.20—a kind of Mobile-Fi that promises speedy links in cars and trains traveling at speeds that can exceed 120 miles an hour.

"The ultimate vision is wireless broadband everywhere," enthuses Sriram Viswanathan, who oversees wireless investments at Intel's venture capital arm. "It could potentially be the biggest thing since the Internet itself."

Some fledglings already are turning it into a business. Intel, looking to juice its stagnant PC business, is pumping \$150 million into wireless investments. Smaller companies such as Proxim and Ensemble Communications are working on Wider-Fi gear, as is tech heavyweight Nokia. Flarion, a Cisco-backed startup, is selling equipment that it hopes will form the basis of the upcoming Mobile-Fi standard. The company is running two trials in South Korea, where new broadband gear is deployed first and fastest.

The Federal Communications Commission is going all out to clear the way for longer-range wireless networks. Last

month it began a proceeding to open up more airwaves for city-spanning wireless webs by loosening restrictions on spectrum now held by Sprint, WorldCom, the Catholic Church and universities. "The opportunity is monumental," FCC Chairman Michael Powell said in announcing the push.

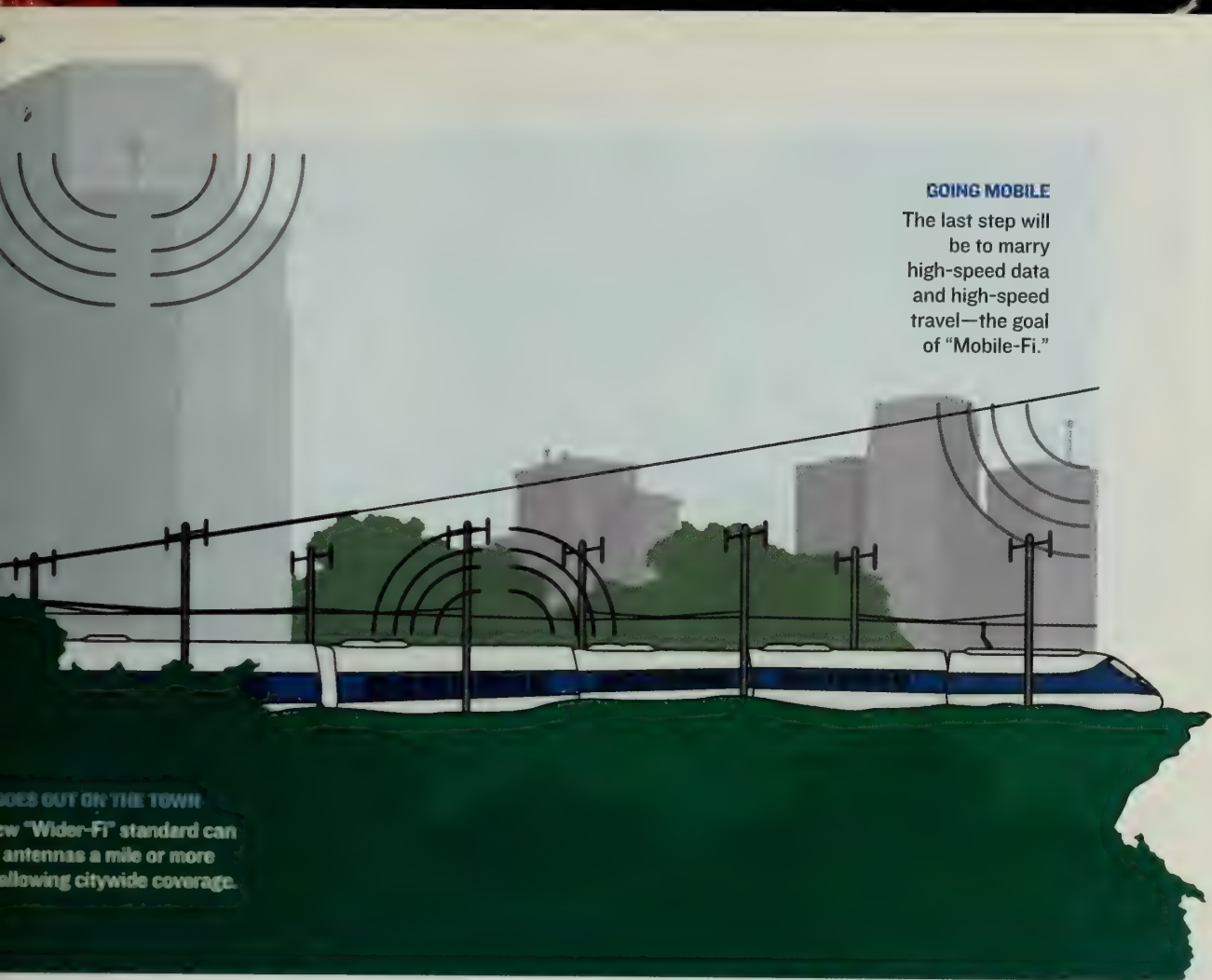
Wider-Fi networks pose a grave threat to the cell phone industry, which aims to blanket the country with wireless Web access by upgrading networks to higher-speed 3G, or third-generation, technology. Backers of 3G grudgingly accept that Wi-Fi is much more effective at short ranges. Last month Verizon Wireless announced a plan to use Wi-Fi to supplement its voice and data network coverage, following similar moves by T-Mobile and AT&T Wireless.

The value of cell phone companies' spectrum licenses could plummet if competitors successfully use other newly deregulated airwaves to offer Wider-Fi and beyond. Verizon values its licensed spectrum at \$40 billion on its balance

sheet, AT&T Wireless at \$14 billion and Cingular at \$7 billion.

"The wireless industry has paid billions of dollars to the government to acquire spectrum," Thomas Wheeler, head of the industry's main trade group, said in a recent letter to Congress. "We were perplexed and concerned [by] the suggestion that additional unlicensed spectrum should be given away for free to other commercial entities so that they may offer the same or similar commercial services." (Weakening that argument. The industry itself received a quarter of its spectrum free over a decade ago.)

Wider-Fi also could give local phone companies and cable operators night sweats, allowing wireless Internet service providers to cheaply hook up homes with broadband speeds. The same Wider-Fi link could also replace a phone line, since the standard is engineered to provide landline voice quality.



GOING MOBILE

The last step will be to marry high-speed data and high-speed travel—the goal of “Mobile-Fi.”

DOES OUT ON THE TOWN
A new “Wider-Fi” standard can place antennas a mile or more apart, allowing citywide coverage.

How the Standards Stack Up

Nickname	3G	Wi-Fi	Wider-Fi	Mobile-Fi
Official name	WCDMA, CDMA 2000	802.11	802.16	802.20
Max. speed (megabits/second) ¹	2	54	10 to 100	16
Coverage area	Several miles	About 300 feet	Several miles	Several miles
Who runs the network	Cell phone companies	Individuals, IT departments	Individuals or WISPs ²	WISPs ²
Type of airwave required	Licensed	Unlicensed	Either	Licensed
Advantages	Range, mobility	Great speed, ultracheap	Versatile, fast, long range	Fast, mobile
Disadvantages	Relatively slow, expensive	Short range	Interference issues?	More expensive?

¹Real-world speeds tend to be far less. ²WISPs are wireless Internet service providers. Source: Institute of Electrical & Electronics Engineers.

And Wider-Fi can slash the single biggest cost of deployment: access charges for linking a tiny hotspot to a local phone cable network. A high-frequency version of Wider-Fi would allow entrepreneurs to blast a narrow, data-rich beam between antennas miles apart. It's the same idea that Teligent and Winstar tried in the late 1990s, only to spend billions before going bankrupt.

The cellular carriers and telcos say Wider-Fi and Mobile-Fi, like earlier efforts,

are overhyped. Cellular networks, they argue, will grab the market first. “I don’t think there is a successor technology to Wi-Fi that will be commercially viable for the next three, four or five years,” says Richard Lynch, chief technical officer at Verizon Wireless.

He also doubts that the Wi-Fi model, which relies on unlicensed airwaves open to all users, can be easily expanded to cover larger areas. Today Wi-Fi avoids overcrowding its airwaves thanks to FCC regulations that keep power levels low

and thus shorten the range of Wi-Fi signals. Five Wi-Fi users sitting in a small park can share the same hotspot without clogging it up. Since their low-power signals quickly die out, another group a few blocks away can reuse the same airwaves. If lots of people start running long-range networks in the same area, traffic jams could bog down the service.

But Roger Marks, who headed the IEEE standards group for Wider-Fi, and the rest of the 802 crowd are confident they can



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Technology

surmount the problems that have plagued earlier long-distance wireless efforts. The new efforts take advantage of the breathtaking pace of advances in wireless technology, driven by superfast, supercheap chips. For the first century after their invention in 1895, radio receivers were dumb, all-analog gadgets. Progress was glacial. A radio from 1990 was little different from one in 1950. But the second century of radio is proving to be far more innovative, disruptive and fast-moving.

Radios have all gone digital, and they now decipher radio waves using signal-processing chips. As a result, wireless technology travels the same bracing ascent as Moore's Law, the principle that has prodded the computer industry ever onward since the early 1970s. Each new generation of faster, denser chips can decipher signals that were too faint or too jumbled for previous receivers to parse. They're also cheaper, smaller, less power-hungry and have longer range. In the late 1990s, as digital cell phones rolled out, capacity leapt sixfold. Newer digital phones have since doubled capacity several more times, helping drive down the per-minute price of a cell phone call from 50 cents to under a dime. The Wi-Fi-type standards take several leaps further and now match the speeds of many wired networks.

The FCC's Powell is staying neutral in the fight over whether to go all-unlicensed, working mainly to open up large chunks of radio spectrum for all comers. (Double the megahertz of spectrum a wireless network can use and you double its capacity. Inspired by the success of Wi-Fi, the FCC plans to open up a huge swath for unlicensed use, a whopping 255 megahertz, bringing the unlicensed total to 664 megahertz. By comparison, the early version of Wi-Fi ran on just 83 megahertz. "That's a carload of spectrum," gushes Edmond Thomas, head of the FCC's Office of Engineering & Technology.

The FCC, traditionally swayed by incumbent broadcasters looking to shut the door on competition, is finally acting more interested in giving all sorts of technology access to the skies. Says the agency's Thomas: "The last thing we ever want to do is pick specific technologies. We believe in the market doing that." ■

How do you spot the winners in a harsh environment?



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Autonomy

making sense of an unstructured world

WINCOM SYSTEMS, A fledgling firm in Silicon Valley, is set to introduce a pretty amazing new computer. Specially designed to run Web sites, the server is about the size of a DVD player and can do the work of 50 or more \$5,000 servers from Dell, IBM or Sun Microsystems. And it costs only \$25,000. Even more amazing is that WinCom's designers, former IBM and Cisco engineers, built it without relying on the single most crucial component in every computer in the world—a microprocessor.

Instead of an Intel Pentium or Sun SPARC chip, the cerebrum of traditional PCs and servers, the WinCom box is powered by chips called field-programmable gate arrays, or FPGAs. They run slower than a Pentium but handle several tasks in parallel, while a microprocessor handles only one at a time. The result is that a WinCom server with a few \$2,000 FPGAs can blow the doors off a Sun or an Intel-based machine. "We're 50 to 300 times faster. It's that level of difference," says Douglas Henderson, marketing vice president at WinCom, in San Jose, Calif., which will introduce its über-box this spring.

Score a victory for privately held WinCom and for Xilinx, the San Jose-based chipmaker whose FPGAs power the WinCom system. Xilinx owns about 60% of the world market for FPGAs, which account for 85% of its \$1.1 billion in estimated 2003 revenue.

In limited ways FPGA

At the gate: Xilinx Chief Willem Roelandts.

chips are nudging aside the mighty microprocessor. Xilinx chips now power EMC storage boxes, Cisco routers and base stations from Lucent, Nokia and Ericsson. Satellite engineers like the chips because they can upgrade systems by beaming up software to reprogram them. FPGAs are even moving into consumer devices, including cell phones and digital cameras. Xilinx has scored wins with Philips, Nokia, Palm and Sony, and it now gets 15% of its sales from consumer devices, up from nothing three years ago.

Willem Roelandts, the 58-year-old chief executive of Xilinx, sees his chips causing a shift in the way computers are built. Instead of using an expensive central processor that fetches data in and out of memory and operates on one thing at a time—a design first envisioned by Hun-

garian mathematician John von Neumann more than 50 years ago—computers may soon rely on programmable chips to run multiple tasks in parallel.

"We're at the end of the von Neumann architecture," Roelandts says. "Programmable chips are the next big wave."

For makers like Xilinx and its rival, Altera Corp., the trend could provide a much-needed shot in the arm. They have been hit hard by the recession, in part because of their reliance on sales to the devastated telecom industry. Worldwide sales of programmable logic chips fell from \$4.1 billion in 2000 to \$2.3 billion in 2002, says Gartner/Dataquest. But this year sales are expected to grow 11%, to \$2.6 billion. By 2005 the industry should regain business lost in recent years.

FPGAs always have been exceedingly

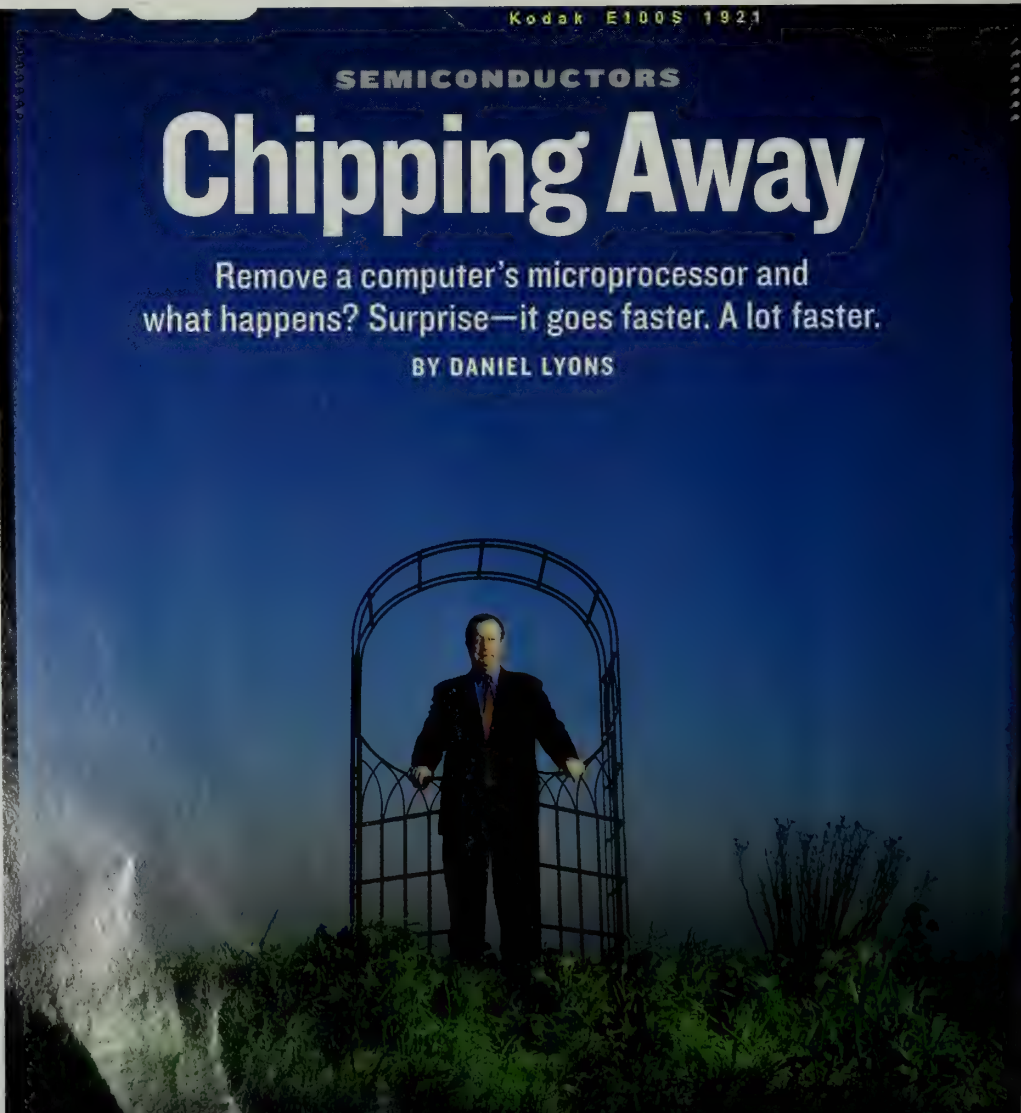
Kodak E100S 1921

SEMICONDUCTORS

Chipping Away

Remove a computer's microprocessor and what happens? Surprise—it goes faster. A lot faster.

BY DANIEL LYONS



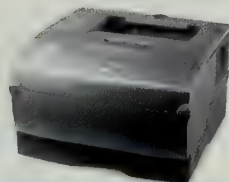
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Technology

flexible, like maps that can be redrawn over and over. Most logic chips and microprocessors with fixed circuitry can be designed only once, while an FPGA has reprogrammable memory cells attached to transistors. Designers can redraw a circuit over and over by switching transistors on and off. And since FPGAs handle lots of different calculations in parallel, they can do complex tasks such as serving up Web pages, modeling global weather and rifling through genetic combinations far faster than Pentiums or digital signal processors. They do this even though their clock speeds, measuring in megahertz, are slower than Pentium chips.

But FPGAs are more expensive than fixed-logic chips, so in the past manufacturers would use them only in the prototype stages of chip design, then move the design to fixed-logic chips. Now costs have dropped dramatically as Xilinx, Altera and others have squeezed more

transistors onto ever-larger silicon wafers. A Xilinx chip that cost \$1,000 in 1996 costs less than \$10 today. Costs will fall further when Xilinx unveils soon the first chips with circuits 90 nanometers wide, about one one-thousandth the thickness of a human hair; 130-nanometer chips are the leading edge today. Next year Xilinx's top FPGA will have 20 million gates versus the 20,000 it had in 1993.

Designers can redraw a circuit **OVER AND OVER** by switching transistors on and off.

With cheaper FPGAs, now many more companies can skip the steep upfront costs—\$1 million in some cases—of tooling up the equipment to make that first fixed-logic chip. When companies make 100,000 units or less of a product, it's faster to skip the tooling and ship products with FPGAs.

FPGAs still fall way short of Intel's microprocessors for general-purpose computing, but for machines that only need to do one thing over and over, FPGAs can be the digital equivalent of putting rocket fuel into a drag racer.

TimeLogic Corp. of Crystal Bay, Nev., soups up standard servers made by Sun and Dell with arrays of FPGAs from Altera to produce a hot rod geared for genomic

Flexible Flyers

Supercomputers are the Thoroughbreds of the tech world: outrageously expensive, blazingly fast and muscled up with thousands of microprocessors. But they are also vastly wasteful. Each chip performs only one task at a time, leaving most of its power untapped. A more elegant design is at hand. Instead of stuffing a box with Intel Pentiums, engineers are beginning to make supercomputers out of field-programmable gate arrays, or FPGAs—chips that can be programmed to run tasks in parallel so that nearly all circuits are being used all the time; and they can be reprogrammed, over and over, nearly instantly. One hour it predicts global weather patterns for the Pentagon, the next it can assess bond market risk on a major interest-rate hedge at Goldman Sachs.

"We believe the next wave of supercomputers will be based on programmable logic," says Willem Roelandts, chief of Xilinx. Such machines would be far more powerful than today's biggest supercomputers, he says.

The trick is writing programs that can make FPGAs dance the way you want them to. "We have all this anecdotal evidence of this fantastic capability, but there are no development tools. That's what's holding this back," says William Carter, a scientist at Xilinx.

Star Bridge Systems, a startup in Midvale, Utah, says it has cracked the problem. Using Xilinx FPGAs and its own programming language called Viva, Star Bridge has created a "hypercomputer" that runs at blazing speed. Scientists at NASA who have tested the system say they are impressed by its abilities, but add that it is not yet ready to handle comprehensive production work.

Other groups, including researchers at the University of California, Berkeley and Brigham Young University, are working to design FPGA-based computers that can be reconfigured on the fly. Such machines could be useful for military applications, like spotting threatening targets, and for computing-intensive security applications, like face recognition.

—D.L.

research. "We're at least a thousand times faster than off-the-shelf," says Christopher Hoover, a director at TimeLogic, whose machines cost \$250,000.

Annapolis Micro Systems sells computer-chip boards laden with Xilinx FPGA devices to accelerate performance. Though the products sell on average for \$25,000, "we're selling twice as many boards today as we were two years ago," says Jane Donaldson, chief executive of the 50-person company in Annapolis Md. Some of her customers are government labs that perform very specific scientific tasks, but FPGAs also are being used in more mainstream ways.

BlueArc, in San Jose, Calif., uses Altera FPGAs to create a storage box that is faster than rival boxes from Network Appliance and EMC. MidStream Technologies of Bellevue, Wash., uses Xilinx FPGAs to build streaming video servers for cable TV operators. MidStream's boxes, a mere 3.5 inches high, use two FPGA chips to deliver 425 concurrent streams of video, making them faster than machines based on general-purpose microprocessors.

Xilinx and IBM are pushing the development of hybrid chips that combine IBM's PowerPC microprocessor with Xilinx's FPGAs. One use: a network server whose FPGA section can be customized for different standards, eliminating the need to make a new chip for each country.

Most people don't much care what chips drive their computers. But soon FPGAs will be all around us. In fact, if you are reading this online, you've already been touched: Forbes.com uses a Xilinx Com FPGA server to dish up pages.



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by Stephen Manes

Power in Your Lap

COMPUTING'S LAST BASTION OF INNOVATION IS THE notebook. In a world of interchangeable desktop boxes, makers of portables keep developing new ways to put desktop-class power into lighter and smaller boxes. The current crop offers units as light as 2 pounds of feathers, screens you can write on, and this year's must-have, Wi-Fi wireless networking. Squawking the loudest is Intel's new Centrino brand, which amounts to little more than a marketing ploy.

Intel has just introduced a very good new processor—the Pentium M, which performs better and uses less power than its immediate predecessor, the power-hogging Pentium 4-M. Intel also offers manufacturers an internal Wi-Fi card, which it calls “integrated wireless LAN capability” even though it’s not included on the chip or significantly different from other vendors’ solutions. If computer makers use Intel’s card, they can take advantage of the Centrino brand (and more than \$300 million worth of hype); if they

New notebook computers offer better chips, lighter weight and more choices.



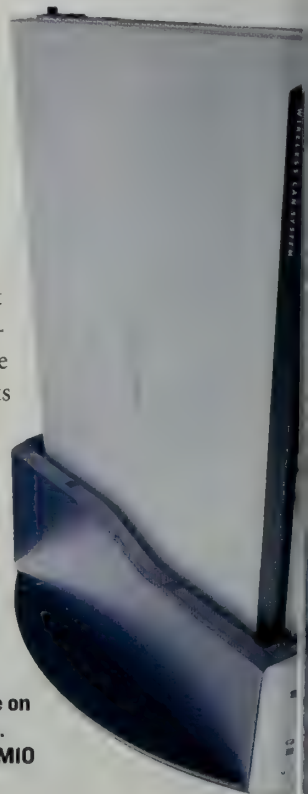
don’t, they can mention only the Pentium M.

So you need not run out and buy a new machine to partake of the wireless wonder depicted in the Centrino ads. You can simply add a Wi-Fi PC Card to your current notebook for about \$60. And there may be good reason to wait to buy a new machine. Centrino models currently offer only the lower-

speed 802.11b version rather than the faster “a” or “g” flavors available elsewhere. Upgrading the internal card can be difficult or impossible.

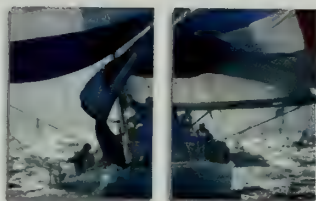
The big claim for the Pentium M is increased battery life. To challenge new machines with that processor and others, I developed the Merengue Test—streaming Latin music over Internet radio via a Wi-Fi connection without using power-saving features. Here’s a roundup of the most interesting new notebooks I’ve seen, Centrino and otherwise; prices are for models I actually tested, but configurations can differ significantly.

At a shade over two pounds, Sharp’s \$1,499 little Actius MM10 surprises you when you open it up to discover a full-featured Windows machine with a 10-inch screen. Its cleverest trick is a charg-



Left: Type and scribble on Toshiba Portege 3500. **Right:** Sharp Actius MM10 syncs from its stand.

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Touchy Pads

One annoying thing about all recent Apple notebooks I've tried is the maddening way the cursor can jump around in unexpected ways

when you accidentally lower a second finger onto—or even near!—the touchpad. I've complained about it in the past, hoping for a fix, but the only noticeable change is that Apple now prints a warning in the manual, noting that "Using more than one finger may cause erratic pointer behavior." Great solution: Blame the victim.

Lately I've been noticing similar behavior on many PC touchpads. Turns out that pads from Synaptics generally have the problem, but those from Alps generally do not. Apple uses Synaptics pads, so if you want an Apple notebook, you get this annoyance for free. With PCs you have a choice. You can check whose touchpad is in the box by visiting the Hardware panel under the System icon in the Windows Control Panel. Click Device Manager, then Mouse and Pointing Devices, and you'll find out whose hardware is installed. Or you can simply see whether the cursor jumps around when you hold one finger on the touchpad and drop another finger down.

—S.M.

ing dock that connects to a bigger computer, and slightly quirky software that can automatically keep designated folders on the two machines in synch every time they meet. The unit has no built-in drives, but comes with a mail-in card for a free outboard DVD/CD-RW that weighs almost half as much as the computer itself.

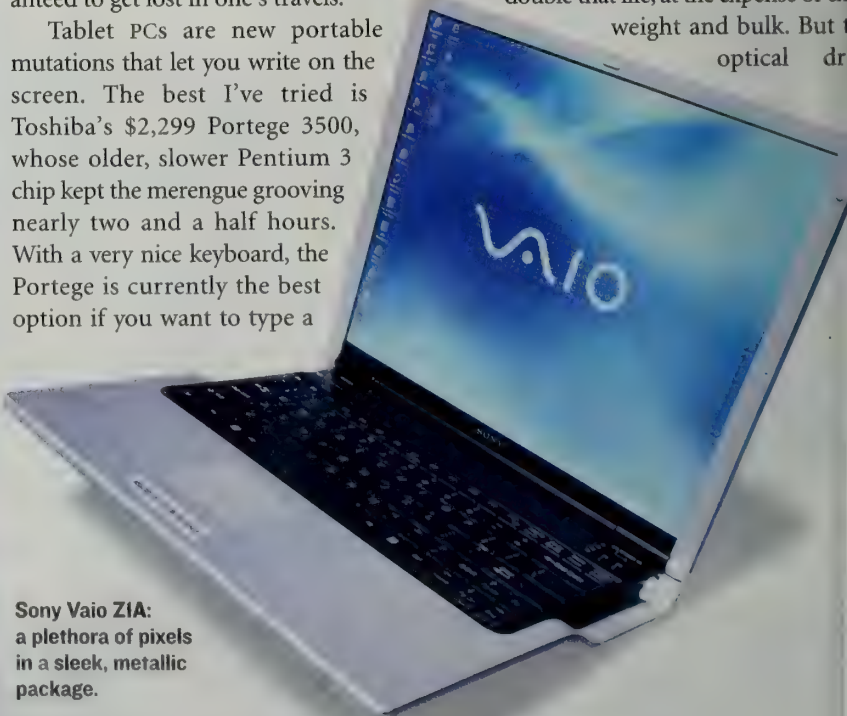
Battery life amounted to an adequate two hours in my Merengue Test, thanks to a Transmeta processor that is not particularly fast. But the cramped keyboard has an annoying layout, and instead of a built-in modem, Sharp supplies a PC-card version that uses a special adapter guaranteed to get lost in one's travels.

Tablet PCs are new portable mutations that let you write on the screen. The best I've tried is Toshiba's \$2,299 Portege 3500, whose older, slower Pentium 3 chip kept the merengue grooving nearly two and a half hours. With a very nice keyboard, the Portege is currently the best option if you want to type a

lot and scribble a little. But be warned: The Tablet PC quirks I described in previous release models (FORBES, July 22, 2002) are still very much in evidence, and just over 4 pounds is heavy for a 12-inch-screen model that lacks an optical drive except as an optional extra.

Toshiba's ultraslim 2.3-pound, \$2,199 Portege R100 has a 12-inch screen and an official Centrino logo. But even with the slowest of the Pentium M processors, the tiny built-in battery managed only an hour and a half of dancing. An add-on battery that will ship with the unit (but was unavailable for testing) should more than

double that life, at the expense of extra weight and bulk. But it lacks an optical drive.



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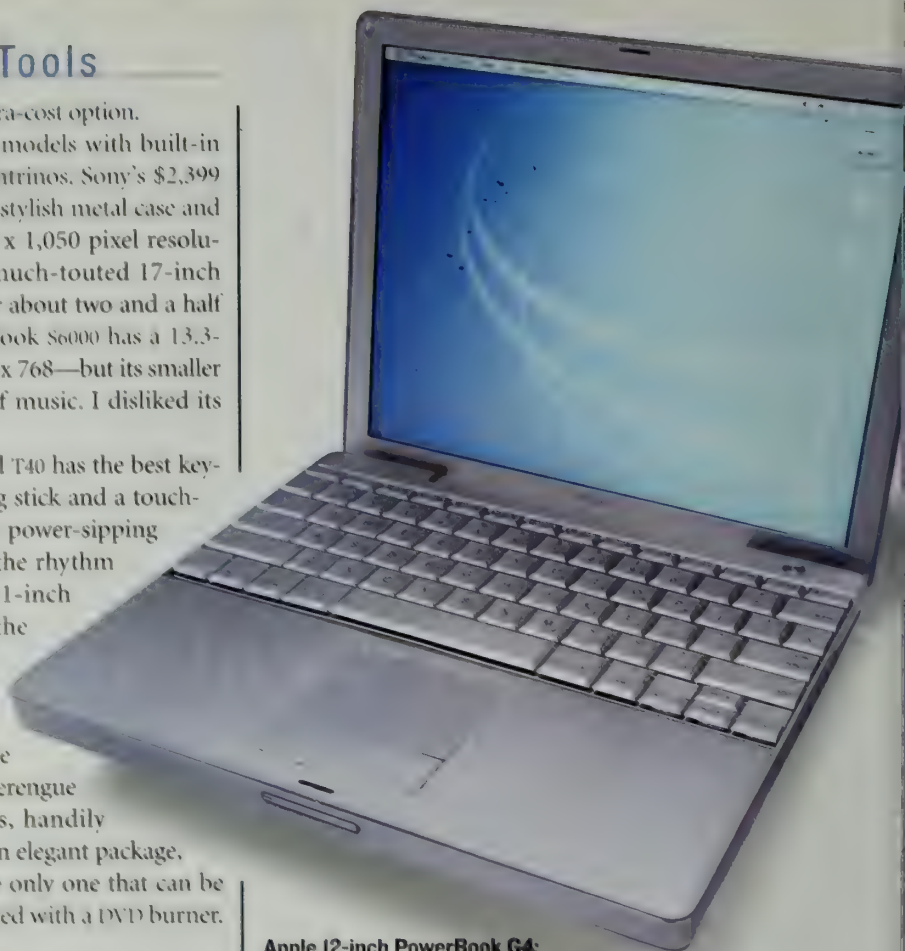
Technology | Digital Tools

you'll need to install new software is an extra-cost option.

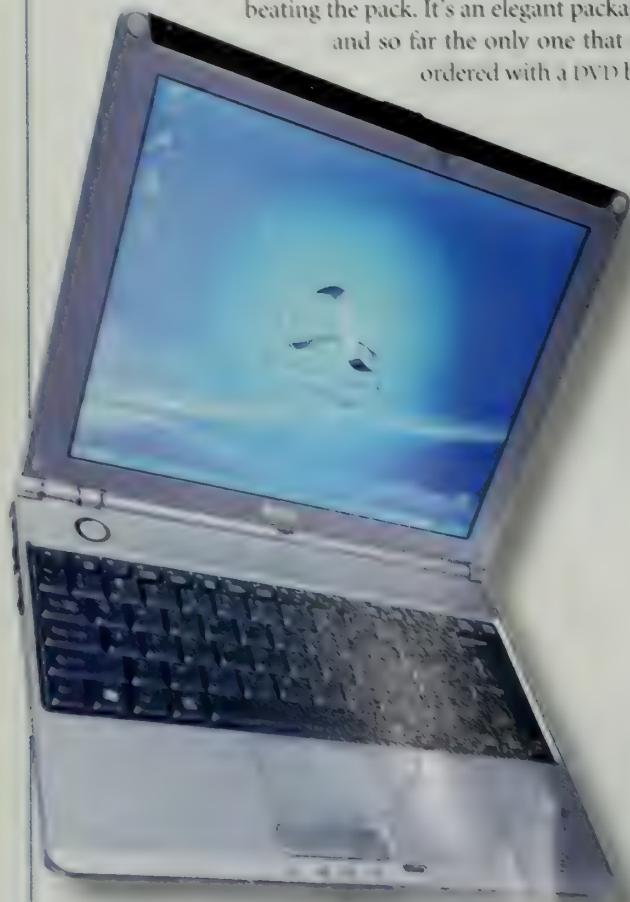
I also tried three bigger Pentium M models with built-in DVD/CD-RW drives. Two are officially Centrinos. Sony's \$2,399 Vaio Z1A weighs about 4.7 pounds, has a stylish metal case and a stunning 14.1-inch screen with 1,400 x 1,050 pixel resolution—17% more pixels than Apple's much-touted 17-inch PowerBook. It kept the music flowing for about two and a half hours. Fujitsu's 4.2-pound, \$2,099 LifeBook S6000 has a 13.3-inch screen with lower resolution—1,024 x 768—but its smaller battery mustered less than two hours of music. I disliked its cramped keyboard, too.

The \$2,429, 4.9-pound IBM Thinkpad T40 has the best keyboard of the bunch, plus both a pointing stick and a touchpad. It's not a genuine Centrino, but its power-sipping Pentium M and Cisco Wi-Fi card kept the rhythm going for two and a half hours. Its 14.1-inch screen has the same resolution as the Fujitsu's.

Then there's the sleek \$1,999, 4.6-pound, 12-inch Apple PowerBook G4. By some measures, it isn't quite up to the fastest Wintel models, but it kept the merengue flowing for nearly three hours, handily beating the pack. It's an elegant package, and so far the only one that can be ordered with a DVD burner.



Apple 12-inch PowerBook G4: long-running battery, fast Wi-Fi.



Sharp Actius MM10: As light as 2 pounds of feathers, but keyboard is awkward.

Apple partisans have been complaining about the performance-robbing omission of a cache that's standard on other current PowerBooks, but unless you're doing intensive graphics work, you'll never notice, though DVD-playing was often somewhat jerky.

Unlike all the others, it doesn't have Wi-Fi built in, but you can add a \$99 card that's compatible with the current standard as well as 802.11g, which is up to five times faster. And unlike the others, it is not a Windows machine, which—depending on your religion—is a very good thing or a very bad one.

Near the end of my testing I developed the Apocalypse Trial raising the real-life question of how much of the 202-minute *Apocalypse Now Redux* DVD will play before the juice gives out. I tried only the IBM and the Apple; both delivered just over two and a half hours with Wi-Fi turned off. If you like long movies bring extra batteries.

I draw three conclusions. First: The screen, disk drives and wireless radio often draw so much power that a lower-power processor doesn't really matter all that much. In the real world you might get an extra half-hour, but not if you're watching a movie. Second: The key factor in battery life remains the size of the battery—bigger, the better. All else being equal, a higher watt-hour rating is better. Third: No one would benefit more from better batteries and energy-saving technologies than long-winded moviemakers. ■



Stephen Manes (steve@cranky.com) was cohost of Digital Duo and has been covering technology for two decades. Visit his home page at www.forbes.com/manes.

MICHIGAN

STATE of INNOVATION

PART VIII in a SERIES

Focus on Work-Force Development: Recruitment & Training Propel High-Tech Economy



Vickery Eckhoff

inding high-tech workers to fill one of the most important positions less work than ever before for Michigan's technologically diverse business community. The state ranks fourth in the nation for total employment in high-tech industries, according to a recent study undertaken by the Michigan Economic Development Corporation (MEDC). The high-tech work force is well trained. Even recent college grads are more plentiful and better educated for the state's high-tech industries than in years past. This was not always the case. The dot-com boom that depleted the state's pool of high-tech workers left many employers unable to expand and grow. With a technologically advanced work force central to the state's economic goals, Michigan set out developing plans that would enable it to find and train the best in life sciences, advanced manufacturing and IT industries.

Two years ago, the MEDC formed the Recruitment Alliance as a way to attract high-tech employees at the college level, an important target for in-state employers. Though present economic conditions make this easier than two years ago, finding the best has remained a priority for companies. Today, more than 140 alliance members — ranging

from small software to auto companies — enjoy a variety of free benefits, including online job postings and company profiles posted on both the MEDC's Web site and in an e-newsletter sent to more than 15,000 students per month.

Participants also attend career fairs with the MEDC at top schools throughout the Midwest — an effort that has helped bring recruiters and job opportunities in engineering, life sciences and information technology to more than 4,000 students.

Alliance member AvTech Laboratories found several high-tech employees through its membership in the Recruitment Alliance. With no human resources department, the company previously relied on word-of-mouth advertising to get the word out to potential employees.

"We're a contract lab to the pharmaceutical industry, so we're always looking for projects," says Mike Coon, director of AvTech's Bio Analytical Lab. "We're really constrained by the number of good new hires we can find that will allow us to say yes to more work. I'd like to say we'd hire as many good chemists as we can find. Every bit helps."

Besides recruitment, high-tech training is an important part of the State of Michigan's work-force initiatives. Conceived in 1997, Michigan Technical

For more information, contact the Michigan Economic Development Corporation at 800-946-6829 or visit www.michigan.org.

Education Centers (M-TECs) were established to support the changing needs of employers throughout the state. With 17 of 18 M-TECs now open, Michigan is able to offer employers flexible arrangements for training new employees for an expansion, to retrain existing workers to avoid layoffs or to simply improve on current employee skills. Each M-TEC is specially designed to offer training courses in the skill areas businesses are seeking. From information technology to mechanics, M-TECs are training thousands of Michigan's workers in high-demand, high-wage occupations.

Evolving with the times, Michigan also has gone "virtual" with its answers to training the state's work force. The Michigan Virtual University (MVU) delivers online education and training opportunities to the Michigan work force. This allows Michigan's future high-tech workers to take more than 700 courses at home whenever it's convenient for their busy schedules. MVU also offers a variety of free courses to small-business employees, teachers and students to allow them to improve their skills without paying a dime.

"We have created a wide range of training opportunities and recruitment programs to ensure Michigan's work force is prepared to meet the changing needs of today's employers," says Jeff Mason, MEDC's senior vice president of Public Affairs. "Our work force is one of the most skilled in the nation, and we intend to keep it that way." ■

Left: The Recruitment Alliance helped bring Jeanette Flick and employer AvTech Laboratories together. Right: The electro-pneumatics robotics lab, Mid Michigan Community College M-TEC.



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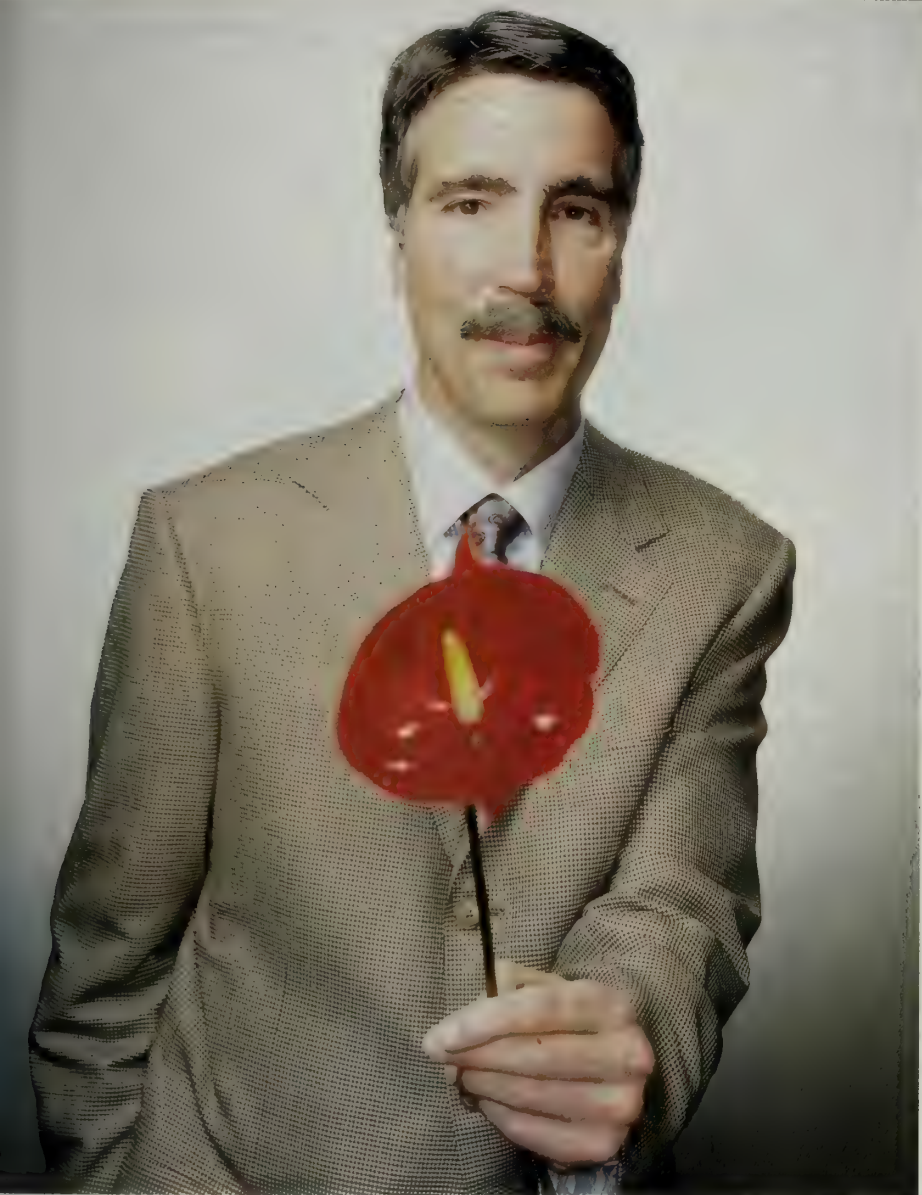
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**Hope springs eternal:
Levitra's David Pernock.**

The TV ad promotes a pill called Cialis, one of two new anti-impotence drugs that have been approved overseas and could win U.S. clearance within months. Cialis is made by Eli Lilly & Co. and biotech boutique Icos. The second drug, Levitra, is backed by Bayer AG and Glaxo-SmithKline. Both duos are bent on cutting into the blockbuster franchise of Pfizer's Viagra by offering limp lotharios a better chance at romance with drugs that the makers claim kick in faster and last longer. Hence the nickname for Cialis: It's the "weekend pill," while Viagra could fade in as few as four hours.

Where there's love, there's war. Pfizer has sued the backers of both drugs, alleging patent infringement. Meanwhile, the new drugs' makers already are plotting a U.S. marketing blitz that will be one of the biggest—and fiercest—in pharmaceutical history. Their marketing budgets, including consumer ads, thousands of salesmen and an abundance of free samples, could each total the \$300 million that Pfizer spends on Viagra, whose sales rose 13% to \$1.7 billion last year.

GIDDY MIDDLE-AGED LOVERS FLIRT SUGGESTIVELY OVER A pool table, ride piggyback and play footsie to the strains of "You Can't Hurry Love." They don't have to: The amorous couples in this TV commercial, airing in New Zealand to push a newly approved drug for erectile dysfunction, have "36 hours of freedom to choose the moment," an announcer says. Nudge-nudge, wink-wink.

With three drugs on the market the ensuing ads will be unabashedly sexual, a dramatic change from Pfizer's shy approach when Viagra was unveiled five years ago. Consumers will hear lots of frank talk about middle-age sex—and the lack of it—peppered with tacit jabs at one another's pills.

The companies also will try to make erectile dysfunction seem like an inevitability of middle age, "almost like when your eyesight

Let's Talk About Sex

Viagra helped millions of men resume their sex lives. Now two new rivals aim to topple the world's best-known drug. A battle looms.

BY ALLISON FASS

Marketing

starts to fail," says Nancy Bryan, a vice president at Bayer. That pitch could extend the market beyond the 30 million men in the U.S. who have the disorder and into the ranks of healthy men looking for a pick-me-up.

One of the best-known brands in the world, Viagra is a formidable opponent, but its shortcomings offer opportunities for the newcomers. Popular as it is, Viagra doesn't work in up to 40% of the men who have tried it. Plus, consuming food and alcohol can diminish the drug's potency; so much for that romantic dinner before bedtime. No wonder half the guys who try Viagra drop it.

Viagra also has a lingering image problem caused by reports of fatal heart attacks in several men soon after it was introduced. Study results have ruled out cardiac risk in men with healthy tickers, but that fact didn't garner as much attention as the deaths.

Cialis, an almond-shaped yellow pill versus Viagra's blue diamond, may have an edge. If it is approved for use in the U.S., the makers will play up the extra time a 20mg tablet gives a guy to woo his way into the sack, as their ads now do in Europe, Australia and New Zealand. The audience: wealthy, active men age 40 and older. "We're not targeting retirees on the beach in Florida," says Robert Brown, a global marketing director for Eli Lilly, in a verbal swipe at Viagra.

Through sponsorships and spokesmen, the Lilly-Icos team hopes to link its drug to longer duration, speed of action and athletic prowess. It shelled out \$1 million to sponsor this year's America's Cup. And in New Zealand it tapped Graham Lowe, 56, a popular rugby coach, as a spokesman for Cialis. In the U.S. consumer ads will be created by ad giant Grey Worldwide, which also creates ads for Botox, Allergan's wrinkle-buster.

Given the Cialis sell, playboys "are

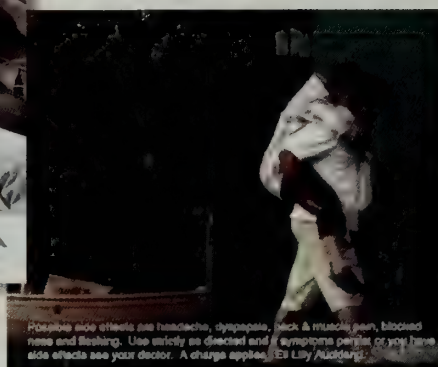
going to say 'I want the Viagra-like pill that lasts the whole weekend,'" says Lehman Brothers Managing Director C. Anthony Butler, who believes the two new drugs will lift sales of the entire category to \$6 billion

Viagra (left) and Cialis, in an overseas ad, target middle-agers with erectile dysfunction.



The one you know... **VIAGRA**

**"We're NOT
TARGETING
RETIREEES
on the beach
in Florida."**



Possible side effects are headache, dyspepsia, back & muscle pain, bloated nose and flushing. Use strictly as directed and symptoms persist or you have side effects see your doctor. A charge applies. © Lilly/Allergan

worldwide by 2009. He predicts Cialis will grab one-third of that—and that Viagra will become even bigger, rising to the \$3 billion mark by then.

Levitra, with a burn-ing-flame logo, is being pitched as a turbocharged Viagra. A 20mg dose can supposedly take effect in 15 minutes and last for at least five hours. Bayer and GlaxoSmithKline want to woo 40-plus middle-income guys in committed relationships, fellows who supposedly don't need a lot of time to maneuver their mates into bed. The Levitra man isn't a swaggering "superhero" like those who will want Cialis, sniffs GlaxoSmithKline Senior Vice President David Pernock. He insists Levitra could become the leader within 24 months of U.S. approval. "We're in this thing to win," he says.

Ah, the joy of being second. Because of public squeamishness about impotence, Pfizer soft-pedaled Viagra for years after its 1998 debut. Its first commercial featured craggy-faced Senator Bob Dole, then age 75, and didn't mention Viagra by name. Early ads showed a silver-haired couple dancing. The tag line—"Ask your doctor about Viagra"—was more polite suggestion than pitch. Still, sales of the

drug hit \$788 million by year-end 1998.

Marketing will be the primary differentiation for these pills, since each works the same way. All are PDE-5 inhibitors and act by blocking the predominant enzyme in erectile tissue, phosphodiesterase-5, which in turn prolongs muscle relaxation and increases blood flow to the penis.

The drugs also share some potential side effects, namely headache, flushing and gastrointestinal distress, mild discomforts that could nonetheless take the fun out of a lusty romp. Also, all of the drugs can be fatal if ingested by patients who also take nitrates or nitroglycerin for heart ailments. An additional question mark for Cialis: It inhibits another phosphodiesterase enzyme,

PDE-11, which is found in the testicles and the heart, although the Lilly-Icos team insists studies show no problems.

Pfizer is on the defense. The New York-based drug giant filed a lawsuit last year in the U.S. District Court in Delaware, alleging both Cialis and Levitra infringe a recent Viagra "method-of-use" patent. The suit is pending. A similar one in Europe was dismissed. Still, Pfizer, which gets 5% of its sales from Viagra, is preparing for the worst. It recently completed a study of 228 Viagra users, showing half were able to have an erection and "successful" intercourse within 20 minutes.

Pfizer also plays up the fear of the unfamiliar. Print ads aimed at physicians tout Viagra as "the one you know." Consumer ads appeal to men who have never tried Viagra, a group Pfizer hopes to convert before Cialis and Levitra reach them. In one TV spot a guy's newfound ebullience is explained this way: "He finally asked his doctor about Viagra for the first time."

Just wait until he hears about the "weekend pill." "The penis doesn't know loyalty," says Irwin Goldstein, director of the Institute for Sexual Medicine at Boston University. "If there's a pill out there that's going to make his erection more rigid, he's going to switch." **F**

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"Several years ago, the doctors told me I was going blind. Today, I'm playing golf three times a week and loving it." — Harry Adams



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FOR THE EPIC HEROES OF BASEBALL, THERE has really been only one Excalibur—the Louisville Slugger. Ty Cobb used one during his career. Babe Ruth hit his 60th home run in 1927 with his signature model. Joe DiMaggio's 56-game hitting streak, Ted Williams' .406 season and Hank Aaron's record-snapping 715th home run were all accomplished with a bat made of northern white ash, turned on lathes in a factory by the Ohio River.

No wonder 39-year-old John Hillerich IV is as edgy as a rookie. The fourth-generation president of Hillerich & Bradsby, the Louisville, Ky. company that makes the most famous stick in baseball, took over the private 119-year-old company from his father in November 2001. "I don't want to be the one who screws this up," he says.

H&B's dominance is under attack as never before. Starting in the mid-1990s, a long lineup of batmakers new to the game—from carpenters to Amish craftsmen—got approval from Major League Baseball, and began stealing away stars and the more lucrative minor-league and amateur markets.

Case in point: the record-setting 73rd home run hit by San Francisco Giant Barry Bonds in the 2001 season. He did so with a maple bat—once thought too heavy for play—made by a Canadian upstart named Sam Holman, a former stagehand who founded the Original Maple Bat Co. out of his garage near Ottawa. In 1998 Holman slipped into the Giants' locker room during spring training and handed Bonds one of his maple creations. Holman's company is now the third-

largest maker of Major League bats, with estimated annual sales of \$900,000. Holman wasn't the only one to infiltrate the ranks. San Diego Padres outfielder Ryan Klesko spotted a Carolina Club in the backseat of a scout's car, liked the way it looked and soon had his own customized bat. Last year there were 48 league-approved batmakers, with names like Barnstable Bats, Sandlot Sticks and Chesapeake Thunder.

This couldn't come at a worse time for H&B, whose wooden bats still claim 60% of the Major League market, 80% of the minor leagues and 80% of the amateur market (50% if you factor in aluminum bats). Baseball's popularity has been trending lower: Children's participation is down 25% over the past 14 years, reports the Sporting Goods Manufacturing Association.

Hillerich can't afford to let things slip. Though H&B dabbles in other businesses—including hockey, golf and, most recently, high-tech gardening gloves—nearly three-quarters of its \$110 million in annual revenues comes from baseball and softball bats. For years H&B milked the aluminum bat business (50% gross margin, compared with 40% or so for wood) for most of its sales. But now many adult leagues, two college conferences and the Olympics have switched back to wood.

So H&B has resorted to various means to swat back at competitors. It hired two Spanish-speaking "scouts" who are focused on winning back pros, like Manny Ramirez and Jay Bell, who defected. Sales reps are descending on the college ranks, providing wood bats for summer leagues. And like Microsoft, H&B isn't above

swiping ideas from smaller rivals. Holman's success with the Bonds' maple bat prompted H&B to redesign its own maple version; maple bats now make up 15% of its pro sales.

All fair enough, but the small batmakers also accuse H&B of playing dirty. They claim the company persuaded Major League Baseball to raise the barrier so high that only the biggest players can survive.

A little over a year ago the league suddenly required all approved bat manufacturers to supply sales data. Stated reason: It would establish a

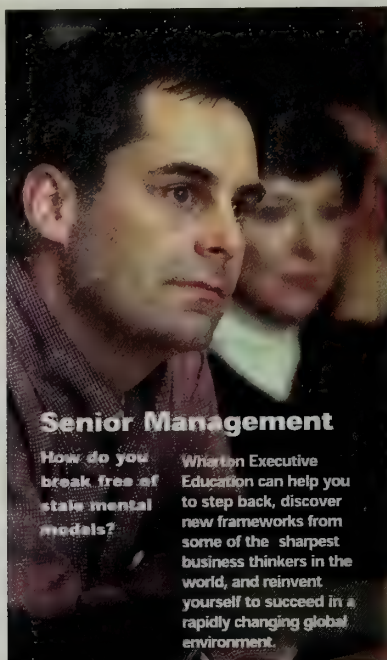
Defending the nameplate: an awesome responsibility for Hillerich & Bradsby Chief John Hillerich IV.

Carry a Big Stick

The maker of the Louisville Slugger dominates the baseball bat business. And it aims to keep it that way.

BY MONTE BURKE





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By the Numbers

Stick Figures

With a greater number of batmakers, wood is once again becoming the weapon of choice, even for amateurs.

90 bats The average number used by a Major Leaguer in a season.

42 ounces The weight of Babe Ruth's bat; Hank Aaron, by contrast, wielded a 33-ounce stick.

40,000 trees The number H&B sacrifices for a season's worth of bats for Major League Baseball.

Source: Hillerich & Bradsby.



company's legitimacy. Then last December the league sent a memo to batmakers spelling out terms for recertification, which included a \$10,000 "administrative" fee, \$12 million in liability insurance (cost: \$35,000 to \$75,000 a year; there are rumors that the \$12 million will be dropped to \$5 million) and evidence of a two-year production run of at least 30 dozen bats to professional players. The new regulations will whittle down the list of approved manufacturers to ten for 2003. "Our feeling was that there were too many companies using the approval and not necessarily making bats for Major Leaguers," says Patrick Courtney, a league spokesman, who dismisses any charges of collusion with H&B.

Some of the smaller fry suspect H&B is behind it all—and point to a meeting between the company and the league last year. "The liability issue is the biggest red herring I've ever heard of," says Patrick Kernan, a lawyer for Hoge, Fenton, Jones & Appel in Pleasanton, Calif., who represents two batmakers without the resources to comply. Even in a tort-crazy nation it's hard to find a case where a jury ruled that a bat manufacturer was responsible for a fan's injury. Another issue: The new regulations may violate the collective bargaining agreement between players and the league because the league made a unilateral decision. In any event, expect a suit soon asking for a temporary restraining order on the new regs, a clause that grandfathers in the 48 manufacturers from last

year and demands damages for lost sales. If the judge plays ball, the case could get interesting, since it questions whether baseball's antitrust exemption also extends to league suppliers.

Hillerich admits he met with the league. But he claims he was approached, not the other way around, and that the topic of discussion was only H&B's operations. There was no hashing out of the regulations, he says. (The league confirms this and says it spoke to several batmakers.) "When you're king of the hill, lots of people take swings at you," Hillerich shrugs.

Getting league approval is a bit like becoming a craftsman to Queen Elizabeth II: The royal household may not spend a lot, but it opens an important door to bigger deals with the commoners. H&B sells 200,000 bats to the pros each year, but it sells them below retail, and they are a break-even proposition. In fact, the economics of sponsorship haven't changed much since 1918, when Babe Ruth signed a loose agreement to use the Louisville Slugger for \$100; today H&B usually pays no more than a token \$500 or a free set of its Powerbilt golf clubs to a player who agrees to have his name branded on the bat.

But H&B can make a tidy profit on the 1 million or so signature sticks it sells to amateurs (retail price, \$10 to \$30). "It's what everyone knows us for," says Hillerich. "People think we're a lot bigger than we are simply because of the presence we have in Major League Baseball."

Puzzled?



UNDERSTANDING — — — — — CONTRACT

What synonym fits into the blanks?

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Vodka, With a Twist

Will \$2 million get your novelty onto the hard-liquor shelf? | BY ROB WHERRY

WHEN THE BERISH BROTHERS, Brian and Brett, decided to break into the vodka business in 1998, they knew they had to have a gimmick. So they settled on a handful: a liquor made from soybeans, whose low starch content pushed the distillation process to three months instead of just a few days for traditional (and less expensive) potatoes, corn or wheat; a weird name—3 Vodka—that has no apparent significance; a cast-glass bottle from Italy that costs 85 cents, three times what

competitors spend; and a plastic cap with a finger hole (50 cents, versus 3 cents for a twist-off). The pair burned through \$750,000 of their \$2 million in startup capital before selling a single bottle.

Crazy? Yes, but at least they had connections. Their grandfather owned a beer distributor in Wisconsin, and their father, Barry, worked at Jim Beam for 40 years, including more than a decade as chief executive. The brothers chipped in \$667,000 each—and got a like amount

Partners, the private equity firm, tried to buy a consumer brand; they were outbid three times. “The longer things went on, the more frustrating it became,” says Brett, 34. “Finally we said ‘Why don’t we just make our own brands?’”

As giant importers know, this is one tough business. Hard-liquor sales inched up an average 2.8% a year between 1991 and 2001 to \$39.5 billion, barely tracking inflation. Vodka has done marginally better, rising 3.8% annually to \$8.6 billion. At

from dad—to start Chicago-based Sovereign Brands. Brian, a former marketing executive for candymaker Russel Stover, and Brett, a founder of Equinox



The booze brothers (and dad): Brian, Barry and Brett Berish, searching for shelf life.

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\$25 or so a 750ml bottle, 3 Vodka hovers in the middle of the high range, between Grey Goose (\$30) and Absolut (\$20). Still, getting shelf space is no easier with booze than it is with cereal or toothpaste, and no less dependent on marketing.

So the Berishes tried desperately to differentiate their product. They paid food-testing outfits \$250,000, starting out with corn, wheat, potatoes and grapes and ending up with soy, tempered with slight amounts of other grains. But no big distiller wanted the business. So the brothers found a tiny outfit to produce batches of 2,000 gallons.

Distributors proved even more stubborn. A few doors opened after the broth-



Class act: 3 Vodka overspends for packaging

ers convinced their dad to come out of retirement and scare up old connections. But it was on their own that they landed their first big account last year, a Safeway buyer in Arizona who oversaw 110 stores. Even he wasn't keen about carrying another vodka until he tasted it and considered the unusual packaging. That and the \$2-off coupon that would run for three months out of the year. (Albertson of Idaho also carries the label.)

The venture is still imbibing capital. Last year they sold 155,000 bottles, losing \$750,000 on wholesale revenues of \$1.1 million. That's without a marketing budget. This year the Berishes plan to spend \$1.3 million on ads and promos, and are hoping to sell 417,000 bottles. Right. As the Russians say, after an evening spent emptying bottles into glasses, "Za vas"—Here's to ya.

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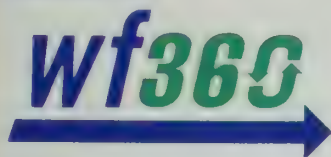
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The Good Book

A surprise bestseller caught this small Christian publisher off guard. Now what to do for second act? BY VICTORIA MURPHY

Reconciling prophets and profits: Donald Jacobson unexpectedly found a way to spread his message broadly. *Jabez* sold 11.2 million copies.

DONALD JACOBSON HAS ALWAYS attacked business with a missionary zeal—literally. “Our job is to attract people to the Gospel,” says the 46-year-old chief executive of Multnomah Publishers and an evangelical Christian. Two years ago the means to do so suddenly fell into his lap.

One of his titles, a pocket-size, 96-page hardcover called *Prayer of Jabez*, took off quite unexpectedly. Its catchy, unabashed message: Asking God for a life of plenty, even a higher-yielding stock portfolio, constitutes a spiritual act. If portraying the Lord as Santa Claus verges on heresy to some clergy, it nonetheless came across as good news to the masses. Now in its 41st edition, the book spent 94 weeks on the *New York Times* bestseller list; 11.2 million copies of the original and follow-on ver-

sions for women and teens have sold.

It was manna to the bottom line. In 2001, when *Jabez* peaked, the company earned an estimated \$8 million on gross sales of \$93 million, triple its revenues in 2000. And its success was something of a fluke. Author Bruce Wilkinson had been preaching the prayer for decades—*Jabez* (pronounced “JAY-bez”) is a lesser light in the Old Testament, mentioned briefly in 1 Chronicles 4: 9-10—and asked his longtime friend Jacobson to do a smallish run in time for the National Day of Prayer. Jacobson obliged, thinking it would sell perhaps 30,000 copies, mainly in religious bookshops. It ended up being a big item for chains like Wal-Mart and Borders.

What a shock. “*Jabez* changed what could be,” Jacobson says. “Incremental

growth every year isn’t enough.”

Repeating such a miracle, though, no snap. Sales of *Jabez* are down to 20,000 copies a month, compared with 1 million at the peak. Partly as a result, Multnomah lost money last year (it won’t say how much) on revenues that dropped 46%, \$50 million. Jacobson is banking on new titles to give the company a lift. *The New Generation Leader*, out in February, is a self-conscious effort to share shelf space with books like *Jack: Straight From the Gut* (Jack Welch’s autobiography), packed with “five essentials for those who will shape the future,” but marketed without overtly Christian references.

Meantime Jacobson has been sucking in his corporate gut. He has reduced matching 401(k) contributions, stopped giving cost-of-living increases and ca-

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Impressionist & Modern Art Part Two

Auction: May 7

Contemporary Art, Evening

Auction: May 13

Contemporary Art, Day

Auction: May 14

Arts of Africa, Oceania and the Americas

Auction: May 15

Finest & Rarest Wines

Auction: May 17

American Paintings, Drawings & Sculpture from
the Collection of Meyer P. & Vivian O. Potamkin

Auction: May 21

American Paintings, Drawings & Sculpture

Auction: May 21

Furniture and Decorative Arts from the
Collection of Meyer P. & Vivian O. Potamkin

Auction May 22

Important Americana

Auction: May 22

French & Continental Furniture

Auction: May 23

Latin American Art

Auction: May 27 & 28

19th Century Furniture, Paintings & Works of Art

Auction: May 29

Shown above: Property from the collection of Mr.
Vyan O. P. Lamas, Joseph's brother, who was
Joseph's Stevedore and dated 1911, and a copy of
24 12 19 19 12 n { estimate \$150,000.00 }

Entrepreneurs

celed the \$75,000 annual ranch retreat for staff and families. Plans are on hold for a new 55,000-square-foot headquarters.

Such manic swings are new to Jacobson. For a dozen years this graduate of Multnomah Bible College chugged along, publishing 120 or so titles a year, books like *The Library of Distinctive Sermons* and *Evangelical Essentials* that brought in \$40,000 in annual sales.

Jacobson received his religious call to action at age 24. A 12-gauge shotgun discharged while he was scolding a hunting dog, and for eight hours, until his wife and a friend found him, he lay motionless with 140 BBs lodged in his side. Another hour and he would have been dead, doctors said. Several years later he started a publishing company in Arizona, then spent some \$3 million in 1992 to buy the Portland, Ore.-based publishing arm of his alma mater, which had been run by his father-in-law. The terms: 10% down and the rest paid over an eight-to-ten-year period at an undisclosed interest.

Multnomah is in Sisters, Ore. (pop. 1,040)—as in the Three Sisters Mountains, an hour west of the ski town of Bend and dotted with craft shops and diners that get crowded only in the summer. Nearly all of Jacobson's 130 employees are evangelical Christians. Most mornings begin with departmental prayer meetings that touch on topics ranging from cancer to new book campaigns. Every two months staffers gather for "Pizza, Prayer and Praise"—an hour of talk and music, plus a half-hour company update by the boss. Multnomah's profits have always been tithed to various ministries; when Jacobson gets a bonus, he gives more than half of it to charity.

Though Jacobson denies it, the *Jabez* phenomenon has rattled life somewhat. These days he talks frequently about “the real estate war” in national book chains and the limits of “viral marketing.” In sum, he is forced in many ways to reconcile profits and prophets. “Money is a by-product of what we’re doing,” he says, “and I see no conflict with it.”

But it's getting harder to make money. Sales of Christian books are expected to

stay flat at \$1.7 billion this year—some that going to giants like HarperCollins and Doubleday, which now have Christian divisions. Last month Health Communications, home of the invincible *Chicken Soup for the Soul* titles, announced a Christian imprint called Faith Communications. Even the largest players are having trouble walking that subtle line between the secular and the sacred. “No matter who you are, it’s not easy to get a religious title in the front of the store,” says Michelle Rapkin, head of Doubleday’s religious division.

The cost of doing business is going up, too. Advances for established writers have jumped from \$25,000 ten years ago to \$250,000 today, estimates Rick Christensen, founder of Alive Communications, a lit-

For eight hours he lay motionless **WITH 140 BBs LODGED IN HIS SIDE**, until his wife and a friend found him.

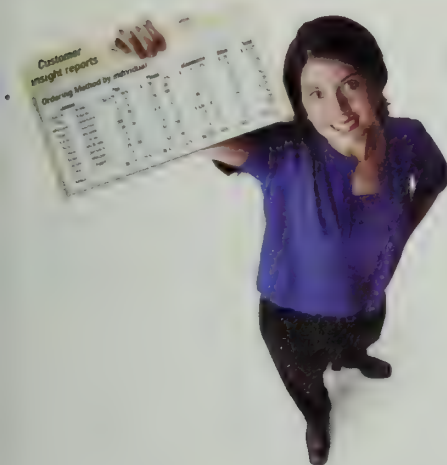
ary agency. Timothy LaHaye, coauthor of the popular *Left Behind* series, fiction good-versus-evil thrillers, reportedly signed a recent multibook deal with Bantam worth up to \$42 million. Jacobs shudders at the thought of such numbers. "We just can't pay that," he says.

But he is cutting by a quarter the number of titles he usually publishes, to 95 a year in order to offer higher advances and more marketing dollars for each. No more spending \$17,000, as he once did, to promote a book; that only buys a dozen full-page ads in *Christianity Today*. Multnomah is spending \$55,000 to market *A Return to Sunday Dinner*, the largest sum in the company's history, to promote a cookbook by former Blair House chef Russ Cronkhite that offers recipes for dishes like Farmhouse Rhubarb Lattice Pie and is laden with quotes extolling such Christian values as family and keeping the Sabbath.

"We can't continue to do business we have for the past 25 years," says Jackson. Amen to that.



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Money & Investing

EQUITIES

What's the Hurry?

Rapid growth may be the mantra in the executive suite, but a new study suggests it isn't necessarily good for shareholders.

BY DANIEL FISHER



Cyrus Ramezani provides intellectual ballast for the Buffett view of growth.

FOR A FEW YEARS IN THE EARLY 1990s Merisel seemed to be doing everything right. Sales grew at a blistering 50% annual rate between 1989 and 1994 as the computer distributor fought competitors, opened overseas operations and rode the personal-computer boom to \$5 billion in revenue.

Then the motherboard shorted out. Manufacturers slashed PC prices, eliminating margins for middlemen like Merisel. The overseas expansion didn't work out and a complex SAP software installation, designed to cut costs, turned out to be a disaster. From a split-adjusted peak of \$220, Merisel shares plunged below \$3, where they remain today.

Could investors have seen trouble coming? A study of thousands of companies throughout the 1990s suggests they could. That study, by California Polytechnic State University finance professor Amir Ramezani, finds that companies that grew the fastest (in revenue and earnings) generated less shareholder wealth than their slower peers. In other words, the hotshots had dizzying growth but they couldn't sustain, and their stocks often suffered.

"The implication for the 1990s is that

chasing growth per se, in terms of earnings and revenue, really was the wrong thing to do," says Ramezani, lead author of the study, which appeared in a recent issue of the *Financial Analysts Journal*.

Ramezani isn't the first to suggest that slow-and-steady wins the investment race. Warren Buffett built one of the world's biggest fortunes on a similar premise. But Ramezani's study of thousands of companies from January 1990 to December 2000 provides intellectual ballast.

Ramezani divided the companies into four groups each quarter over the 11-year period, according to sales and earnings growth. Companies in the fourth quartile showed the fastest growth. He then examined the relationship between growth and shareholder returns using a measurement known as Jensen's alpha, which represents the difference between a company's stock performance and the return of a diversified portfolio of risky stocks.

Ramezani used this measure to correct for the fact that high-growth companies also tend to collapse more often, making it impossible to compare portfolios with different growth characteristics over a number of years. This so-called "survivorship bias" skews returns simply because more losers are eliminated from the sample.

What Ramezani found was that companies that are consistently in the third quartile of growth—stalwarts like Wal-Mart, AutoZone and Intel—had stocks that far outperformed their faster-growing cohorts in the fourth quartile, such as Merisel, Limited and Toys "R" Us. The difference in risk-adjusted returns averaged 7.5% a year, based on a subgroup of 2,300 firms that reported sales and earnings growth sufficient to put them in one of the two quartiles for at least three years in a row. The laggard first-quartile companies, which reported that sales shrank on average by

3.4% a year over the period, included such problem children as 7-Eleven, Unisys and Owens-Illinois.

"When companies get on the treadmill beating the drum for more earnings growth, it's very tempting to invest too much capital in unrewarding, mature or risky businesses," says Bennett Stewart, senior partner at the Stern Stewart consulting firm.

The study didn't dismiss growth entirely. Fourth-quartile stocks, which expanded revenue an average 167% a year over the decade, included such winners as Williams-Sonoma. But picking them instead of fourth-quartile losers such as Bombay Co. or Books-A-Million is largely a matter of luck. Investors would have been better off in the third quartile, where sales rose a still-impressive 26% a year. Hardware supplier Fastenal was in the third quartile and rose fourteenfold.

Now, no academic study is perfect. Martin Whitman, manager of the Third Avenue Value Fund, notes that Ramezani's findings are biased toward large-cap growth stocks like Wal-Mart, which began the decade cheap and ended it expensive. Well, the study at least did encompass the 2000 down year.

Skeptics also dismiss studies that use adjustments like Jensen's alpha, citing the adage: "You can't eat risk-adjusted returns." True enough.

So Ramezani ran the numbers to determine raw returns for four portfolios with holdings adjusted yearly according to growth rates, bypassing the alpha calculation. The results didn't disturb his conclusion that fourth-quartile speedsters are not the best place to put your money, although the order of finish for the race changed a bit. Second-quartile stocks did best with an 11.2% compound annual return through January 2002, followed by the third quartile at 9.1%. The hot-growth fourth quartile showed an 8% return, slightly better than the skanky first quartile's 7.5%.

Footnote: The market-cap-weighted S&P 500, burdened by tech outfits that didn't exist in 1990 and later crashed, returned just 5% on average.

Slower Is Better

Companies that ranked in the third quartile of growth actually had higher shareholder returns.

Company	PRICE		
	1/2/90	12/29/00	3/17/03
SLOW-AND-STEADY WINNERS (third quartile)			
AutoZone	\$7.34 ¹	\$28.50	\$72.34
Procter & Gamble	10.75	35.50	44.65
Fastenal	1.92	27.44	30.62
Intel	1.13	30.06	18.06
Wal-Mart Stores	5.89	53.13	51.97
FAST-GROWING LAGGARDS (fourth quartile)			
Agg & Stratton	\$12.08	\$44.38	\$39.10
Limited Brands	8.40	17.06	13.00
Merisel	61.25	1.56	2.75
GM Mirae	7.81	28.19	28.85
Toys "R" Us	26.25	16.69	8.81

¹ Last trading date 4/2/91. Source: Bloomberg Financial Markets.

INSURANCE

WHOLE LIFE INSURANCE, THAT STODGY PRODUCT with a savings component built in, is coming back to life. With interest rates low and the stock market way down, the go-go alternatives of the 1990s, like variable annuities and variable universal life, don't look so hot anymore. And the winners in this business are the stodgiest of insurers—the mutual companies owned by policyholders. The go-go stockholder-owned insurers that did so well with variable annuities aren't as competitive in whole life.

With whole life you pay a flat annual premium much higher than what would be needed to cover your death benefit. The excess accumulates over time and creates a cash value. If your family doesn't need the death protection—say, the children have left the nest and the mortgage is paid off—you have the option of converting the cash value into a source of retirement income. Or you could leave the policy in force as part of your estate, letting the death benefit rise over time.

What kind of return you get from this complex investment depends, in part, on how well the insurance company's portfolio

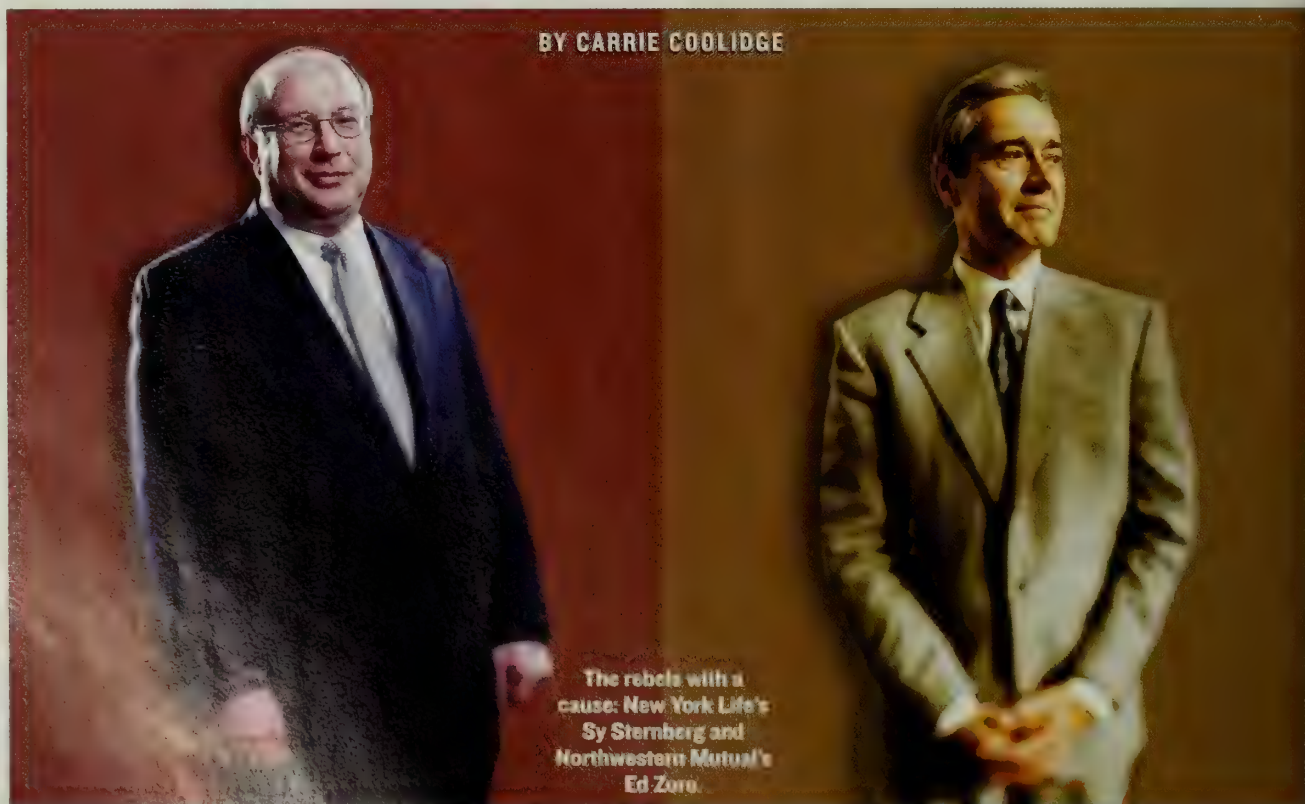
does. There's a guaranteed minimum cash value, though, that is equivalent to a modest return on the savings component of the policy. Example: A 45-year-old, nonsmoking male who pays \$20,360 yearly for a \$1 million policy from Northwestern Mutual would have a guaranteed cash value of \$606,750 in 30 years. That's a hair less than what the buyer paid in over the 30 years. That doesn't sound great, but remember that the buyer gets death coverage all along. If he dies at 47, his \$40,720 in premiums yields \$1 million for his family.

What's this death coverage worth? Over 30 years the answer is fairly complex. But a 45-year-old nonsmoking male could pay \$2,755 a year for \$1 million bare-bones term insurance that would last 30 years.

Compare a similar policy from publicly traded MetLife. In 30 years the guaranteed cash value would be \$43,000 less. The MetLife policy costs \$520 less each year, but if that annual sum were invested over 30 years at 4%, it would still not make up the difference in cash value.

Not long ago, when interest rates were higher and the stock market was roaring, neither of these whole life policies would

BY CARRIE COOLIDGE



The rebels with a cause: New York Life's Sy Sternberg and Northwestern Mutual's Ed Zero.

Mutual Advantage

Whole life insurance sold by mutual companies has taken on a new appeal. Why?

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have been particularly appealing. Break even over 30 years, even if you get free term insurance along the way? Not a winner.

But now, with 10-year Treasury bonds yielding 4%, the whole life policy doesn't look so bad. Moreover, there is the prospect that a "participating" whole life policy, as both of these are, will do far better than its guarantee. If the insurer does well with its investments, expenses and claims, you participate in the results by getting dividends that build up your cash value and death benefit (or can be used to reduce your premium).

Here's where the mutual companies have the high ground. They have no stockholders to enrich, the mutual salesman says, so they are generous with policyholders. Comparisons get tougher at this point: No one knows what the future will bring. But for what they are worth, here are "illustrations" of possible future results, based on current dividend rates. Northwestern Mutual's reinvested dividends would hypothetically boost its policy's cash value in 30 years to \$1.7 million, versus \$1.3 million from MetLife.

Cash values likely won't match these projections. Life insurance portfolios are now enjoying the coupons on bonds bought when interest rates were higher. New money is invested at lower rates. Indeed, Northwestern, among many others, cut its dividend rate last year.

During the bull market the lure of option wealth and the prospect of fresh capital for expansion induced some well-known mutuals, including MetLife and John Hancock, to convert into stock com-

panies. A handful of large mutuals stubbornly bucked the trend, and they are the standouts in policyholder dividends. In 2001 Northwestern Mutual paid out \$3.6 billion in policyholder dividends and New York Life \$1.4 billion. Only one publicly traded insurer cracked the \$1 billion mark. Both Northwestern and New York Life have been gaining market share in life insurance at the expense of stockholder-owned companies.

Edward J. Zore, who has been running 146-year-old Northwestern Mutual since 2001, swears he won't take his firm public. Seymour (Sy) Sternberg, 158-year-old New York Life's chief, adds that the ability of publicly traded insurers to raise new capital gets too much credit: "The pasture turns brown when everyone jumps the fence."

Mutuals, by and large, invest more conservatively than stock companies, says Arthur Fliegelman, the senior credit officer at Moody's Investors Service. The mutuals lean primarily toward high-grade bonds, with some stock, mortgage loans and a little real estate thrown in. The stock companies usually have more junk bonds.

Three years ago the mutuals looked hidebound and Old-Economy-ish. Now they look pretty smart. Last fall Fitch downgraded 35 insurers (including Hartford Life, MetLife and John Hancock) because of the poor performance of their investment portfolios. Two-thirds of the companies given the highest score—AAA—were mutuals, including New York Life, Northwestern, Mass Mutual and State Farm Life.

Sharing the Wealth

With no shareholders to worry about, mutuals are more generous to policyholders.

Company/ownership	2001 Dividends		
	to policyholders (\$mil)	to shareholders (\$mil)	paid to policyholders as % of net income ¹
John Hancock/stock	\$304	\$730	32%
MetLife/stock	661	3,754 ²	43
MONY/stock	204	115	67
New York Life/mutual	1,408	—	53
Northwestern Mutual/mutual	3,651	—	86

¹Net Income is earnings before policyholder dividends, taxes and capital gains and losses. ²Because of its demutualization in 2000, MetLife's dividends paid to shareholders were high, in part, because some policyholders opted for cash payments in lieu of stock.

Sources: A.M. Best; company filings; Forbes.

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STOCK FOCUS

Downhill Chaser

Charles Brandes picks winners from beaten-up stocks, including those of firms in danger of going bankrupt.

BY MICHAEL MAIELLO

ONE OF WALL STREET'S OLDEST saws, "Never try to catch a falling knife," doesn't make much of an impression on veteran investment manager Charles Brandes. The lanky, laid-back 60-year-old Californian becomes interested in a stock when it has lost more than half its value over the previous 12 months. He thinks that momentum investing—chasing after stocks that are climbing—is far more dangerous.

Brandes considers himself a true disciple of the late Benjamin Graham and David Dodd, the high priests of long-term value investing. In 1968, six years before founding his own firm in San Diego, Brandes worked at a brokerage house in La Jolla, Calif. where the retired Graham was an occasional visitor. Graham was mostly there to borrow Standard & Poor's *Stock Guides*, which he needed to revise his book, *The Intelligent Investor*. But he made one trade, which Brandes cleared for him. Brandes recalls the details to this day: 1,000 shares of National Presto Industries bought for \$30 a share. That woebegone appliance maker remains a value play even now—with soggy earnings and a lot of cash on hand. Graham's \$30,000 investment was worth \$28,000 five years later.

After the chance encounter, they got to know each other over the course of numerous discussions about the stock market, of which Brandes remains a bookish student. He remembers Graham, who

died in 1976, imparting aphorisms like "Value stocks are never popular, but 'popular' doesn't mean 'prudent.'"

That lesson rubbed off as a love for out-of-favor stocks and an adherence to value investing. Some cheap stocks, of course, just get cheaper. The companies tumble into bankruptcy. One strategy

rate accounts, as well as a line of retail mutual funds sold in Canada. His firm is subadviser to ING mutual funds. Its U.S. Value Equity portfolio boasts a 6.6% three-year annualized total return through last December. In that period the S&P 500 was off 14.6% a year and the Russell 1000

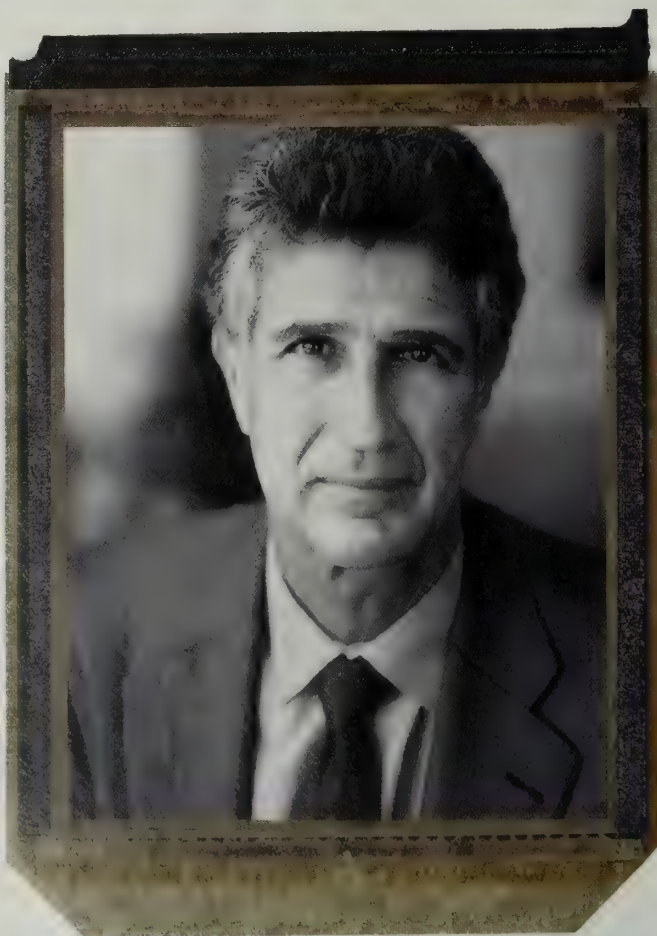
Value index was off 5.1% a year.

If you want to buy junk stocks, get a lot of them—and some fortitude. "A mutual fund manager who owns a company into bankruptcy risks the ire of his shareholders, and his job," says Brandes. "I'm not afraid to hold a controversial company."

The risk of bankruptcy—and client fury—is real. In the third quarter of 1997 Brandes invested in Japanese brokerage Yamaichi Securities at a discount to book value. But sluggish operating results and downgrades by credit rating services were followed by the revelation that Yamaichi had been hiding losses in offshore subsidiaries. By November 1997 Yamaichi had gone under. Brandes rode the stock all the way to zero.

But when he wins, he sometimes wins big. In January 1998 Brandes began acquiring debt-ridden sneakermaker Reebok. Bad earnings calls and a suspicion that Reebok couldn't cover its debt helped drive

the stock down still more. Brandes kept buying—even through the Asian currency crisis, which was a blow to Reebok's sales. When the stock hit a low of \$10 in 1999 Brandes was still buying. He unloaded in January 2001 at \$30.



Brandes has used to good effect is based on the theory that, despite the bankruptcy risk, firms that have lost massive market value make the best stock picks (see box).

Today Brandes Investment Partners manages \$58 billion in private and corpo-

Brandes bought Elf Aquitaine, a private French oil company, when it was set by high exploration and production costs. He liked the company's solid assets. It had already gained 120% when the company was purchased in 1999 by Total for \$52 billion.

More recently, according to FactSet Research Systems' LionShares Database,

Brandes has been buying names like Zurich Financial Services, down from \$25 to \$8 over the past year, and Telecom Corp. of New Zealand, now near its 52-week high of \$20.84.

Brandes is cagey about what he's buying at the moment. No matter. In the following table we list three stocks held by Brandes as of his latest financial report,

and three that passed stock screens similar to those in his study. The screened stocks have lost 60% or more of their market values over the last year, have market capitalizations over \$400 million and have positive earnings over the past 12 months. They all also sell for no more than 6 times trailing 12-month earnings, or at book value or below.

Catch These Falling Knives

Though now out of favor, these stocks have substantial market caps and promise positive earnings over the next year. They just might be able to reclaim their lost allure.

Company	Recent price	Market cap (\$mil)
Histor-Myrus Squab	922.20	\$43,487
McDonald's	14.35	18,157
ABC Communications	21.20	71,289
Leas, Roebuck	20.85	6,492
ECO Energy	10.58	1,816
HumProvident	8.70	2,164

Source: FactSet Research Systems, LionShares Database. Data as of 11/11/01. All prices are in U.S. dollars.

Safety in (Scary) Numbers

Like his friend the late Benjamin Graham, Brandes is a student of the stock market. In 2001 Brandes' firm finished a research project that supports his investment thesis that despite bankruptcy risk, companies that have lost massive market value make the best stock picks.

The firm examined more than 1,000 companies that lost 60% of their value in a 12-month period between 1986 and the end of 1999, but still had market values greater than \$100 million. Brandes found that within three years of the precipitous price losses, 13% of the firms were in bankruptcy. But, on average, the stocks gained 35% in the first year and 18% a year over three years.

—M.M.



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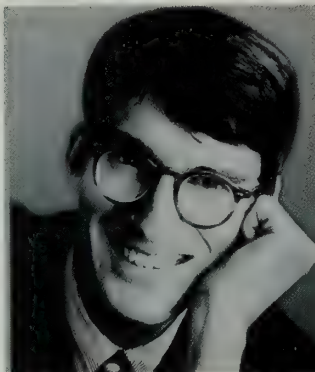
INTEREST RATES ARE HARD TO FORECAST BUT EASY TO compare. So let's compare. On the one hand, a 12-year Treasury bond yielding 4.13%; on the other, a 12-year tax-exempt backed by pots of Treasuries yielding 4.11%. Who wouldn't prefer the Treasury-supported tax-exempt?

Most would prefer it, but many would give it the fisheye. How could any efficient market serve up what amounts to free tax exemption? Ah, but the muni market isn't efficient—it is certifiably inefficient. It is full of potentially lucrative anomalies, escrowed-to-maturity bonds (ETMs) not least.

ETMs have the tax advantages of conventional municipal securities but the credit quality of the collateral supporting them—often, but not always, Treasuries. To turn a conventional muni into an ETM, the issuer “defeases” it. It sets aside funds to pay off the bonds at maturity or at a prerefunded date.

You can find ETMs with pretax yields almost identical to Treasury yields of the same maturity. But you can also find trouble. It's the risk of a hitch that helps to explain the existence of otherwise inexplicable yields.

For example, there's the risk of early call. Say you buy a



The longer the maturity of an ETM, the smaller the difference is likely to be between its yield and the corresponding Treasury yield. In the two-year and five-year maturity range, ETMs fetch 70% or more of the Treasury rate; in the ten-year range, 90% or more; and beyond ten years, 100% or more. Aftertax, of course, a buyer in a high tax bracket would be ahead of the game, even in the lower yields of the shorter maturities.

At today's low rates, bonds are no great bargain (I expect rates to rise), but tax-exempt Treasuries are among the least bad. You'll find long lists of municipal offerings, ETMs included, on a Bloomberg Type in “pick,” hit “go,” then hit “6” and “go” again. Check out searchbonds.com, the encyclopedic municipal bond Web site of John Howle, first vice president of investment at Raymond James & Associates in Dallas. Registration a necessary (but free) step to gain access to the “search f

Treasury-Backed Munis

A selection of escrowed-to-maturity municipal bonds, which are backed by Treasury securities.

Issuer/purpose	Maturity date	Coupon	Price	Yield to maturity	Yield as a percentage of Treasury
Intermountain Power (Utah)/power supplier	7/1/04	6.50	\$106.88	1.09%	85.0%
North Slope Borough (Alaska)/town	6/20/05	8.50	116.07	1.33	76.2
Goose Creek (Tex.)/school district	8/15/12	6.13	120.59	3.53	97.3
Westmoreland County (Pa.)/water provider	8/1/15	zero	60.41	4.12	103.7
Foothill/Eastern Corridor (Calif.)/toll roads	1/1/20	zero	45.87	4.70	105.3
Westmoreland County (Pa.)/water provider	8/15/21	zero	41.07	4.90	105.5
Foothill/Eastern Corridor (Calif.)/toll roads	1/1/23	zero	37.43	5.03	104.8

Source: Bloomberg.

bond at 120. There's a call—your broker meant to warn you about it—at 100. Now you're out 20 points, or \$200 per \$1,000 face amount. Or you could get stuck with bonds collateralized not with governments but with quasi-governments, e.g., the obligations of Fannie Mae or Freddie Mac.

“Clean” ETMs are—for the most part—what the phrase implies: escrowed all the way to maturity, with Treasury collateral, and with no risk of early call. “Prerefunded” bonds are escrowed to an early call.

There's another kind of call risk to consider. Say that you know about a call date and are banking on it as the equivalent of a maturity date. You have a 5% maturity in 2025 but callable in 2010. If rates stay low, your bond will indeed be called: You've got the seven-year paper you bargained for. But if rates shoot

up, and stay up, what you have instead is a bond maturing in 2025—it's yours for the next 23 years. Which means that callable bonds should have yield-to-call a bit better than the yield on a noncallable bond maturing on the same date.

Like snowflakes, municipal bonds are particular and specific. You can't generalize about them. Now for a generalization

The accompanying table suggests the range of available merchandise. At the long end of the market, zero-coupon bonds—like the ones in the table—are what's mainly on offer. All are escrowed to Treasuries. The muni market is quirky enough to surprise even seasoned practitioners. A friend recently bid on zero-coupon ETMs maturing in 2016 and 2018. The 2016 bonds were quoted at a price-to-yield 4.69%, 7 basis points more than zero-coupon Treasuries of the same maturity. What could be finer? But the 2018 ETMs were offered 10 to 15 basis points below the comparable Treasuries. “It's weird,” he said, not exaggerating.



James Grant is the editor of *Grant's Interest Rate Observer*. Visit his home page at www.forbes.com/grant.

*Life's too short
to eat anywhere else.*

- RUTH



Wall Street's Fat

THE DEMAND FOR INVESTMENT HELP IN THE YEARS ahead could hardly be stronger. The long bear market has relieved Americans of the conviction that they can handily beat the pros on their own. Garage mechanics who became day traders have removed their stock quote machines and are back to rebuilding carburetors.

Meanwhile, a consumer saving spree is unfolding, replacing a two-decades-long borrowing-and-spending binge. As I've mentioned in my Dec. 10, 2001 and earlier columns, individuals have drained their home equity wells dry. Monstrous debt levels cry for reduction. Individual investors now realize that stock appreciation will not replace saving to finance their kids' education and early retirement. Young people don't expect much in Social Security retirement benefits. And income shares continue to shift to high-income folks, the traditional big savers.

The postwar babies, looking retirement in the teeth, have an average family net worth (outside their houses) of a mere \$50,000. But they can save. They're now in their peak earning years, and their current expenses are falling as their kids leave home.

Sounds great for brokerage firms, mutual fund advisers, individual account managers, financial and estate planners, banks and trust companies and insurers. But—and this is a huge “but”—before you invest in any of these financial service providers, consider this:

Investment returns in the years ahead will be fine by historical norms, yet niggardly by the late 1990s standards. As discussed in my Mar. 3 column, I foresee real (inflation-adjusted) total (dividends included) returns of 5% to 6% a year on stocks, but that's only 4% in nominal terms after 1% to 2% deflation. Long Treasury bond yields will probably run a real 4% to 5%, or 3% nominally. The consensus forecasts for nominal stock and bond returns are a few percentage points higher.

That means that current brokerage and commission fees, which would eat up big chunks of investment returns, will be under extreme pressure. Brokerage house wrap fees of 3% of assets will be obsolete. So will asset management fees of over 1%, unless vastly superior performance is delivered consistently. Even though life insurance is tax-advantaged, traditional distribution costs of 25% of the premium dollar don't fit

If the postwar babies start to fret about retirement, then the financial services firms should enjoy boom times, right? Not if the firms can't get costs down.



with the likely returns on life companies' fixed-income-dominated portfolios.

Will financial service fees and commissions adjust easily? It's doubtful. Since 1984 stock mutual fund assets have leaped from \$76 billion to \$2.6 trillion, but the median expense ratio jumped too, from 1.34% to 1.46% since 1999. With greater economies of scale, shouldn't

have fallen? And with brokerage commissions, the total is doubled to 3%. Now the fund industry is hiking fees to offset the decline in trading volume and stock prices. Morgan Stanley recently pushed its annual IRA fee to \$40 from \$30.

Sadly, the cultural change needed to shift from a fat and happy business climate to a lean and mean one is just too difficult for most businesses. Consider airlines and steel.

Before the late 1970s airline fares were controlled by the Civil Aeronautics Board, which rubber-stamped increases to offset labor and other cost hikes. Deregulation introduced ruthless competition, but labor and management still haven't adapted. Even today, as American Airlines flirts with bankruptcy, its pilots want a 39% raise because they aren't the industry's highest paid. The lone successful airline of size is Southwest, which, significantly, has never been regulated.

The postwar leaps in foreign steel production ended the heyday of the steel industry in the U.S. But rather than shift to a productivity-enhancing mind-set, the industry has focused on protectionism. Nucor is the sole successful steel company in recent decades, again a startup with an entirely different culture. Nucor concentrated on foreign, competition-free niches, pushed productivity and invested in low-cost minimills fueled by scrap steel. Like Southwest, the firm eschewed management frills while empowering employees.

The hope for the financial services industry may lie with upstart Charles Schwab. Co.'s discount heritage persists as it adds services and becomes a full-service broker? Ominous sign to the contrary: The firm is raising its fund supermarket fee from 0.3% to 0.4%, the first jump since 1998. Similarly, will E-Trade and other online brokers successfully expand their venues and upgrade their image while maintaining their low-cost approaches?

Securities firms will be able to assist savers only by slashing costs to fit the likely lower investment returns. For everyone's sake, let's hope they do.

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Bad Debt

CORPORATE AMERICA LABORS UNDER A MOUNTAIN OF debt from the booming 1990s. Some companies—names you know and thought you loved—are in grave peril. Several companies, trying to lighten their debt burdens, have already force-fed restructurings to their bondholders in which the investors either had to forsake some of what was owed or accept worse consequences.

The ugly options debt-laden companies have are few: 1) sell the best assets to pay for debt reduction; 2) file for bankruptcy; or 3) restructure out of court, offering bondholders less than they have now. The difference between a Chapter 11 and an out-of-court restructuring is that bondholders have a little more clout outside bankruptcy, where the judge and the lawyers are big factors. In court someone always can move to liquidate the whole mess, leaving unsecured creditors with a pittance.

My advice for these situations is simple: If you hear that your debt issuer is even thinking about a restructuring, sell now. Take your losses, perhaps using them later to offset capital gains. If you hesitate, nothing but pain awaits you. Two issues that are worthy of sale on this score: Teco Energy and Sprint.

Sure those double-digit yields are alluring. Yet there's a good reason you're receiving them—namely, the bonds' elevated risk. A recent Merrill Lynch research report noted that 45% of all U.S. investment-grade bonds are in the BBB rating range. That's one measly notch above junk.

Gobs of fallen angels are candidates for bond restructurings. Formerly great companies like Xerox, Lucent and Nortel have junk ratings. Any number of investment-grade companies appear to be at high risk of becoming junk. I'd put Tyco, AOL Time Warner and Kroger in that category.

How did we get into this fix? Some companies issued too much debt to buy back equity; others borrowed too much to pay for lousy acquisitions. And as the stock market has suffered, corporate pension funds are coming up short and need new doses of cash—cash no longer available for interest.

Take heed of former highflier Qwest Communications. Late last year the company, which owns the regional Bell phone utility US West, asked bondholders to

Highly leveraged companies are offering to exchange bonds for other things. Do not take these deals. You're better off just selling the shaky paper.



swap \$12.9 billion of debt in a Tony Soprano-type offer: Take it or else. Bondholders who took the exchange turned \$5.2 billion of bonds into \$3.3 billion of new debt with higher coupons and more seniority. An instant 36% loss in face value. And the or-else crowd? Those who refused the deal became more subordinated in the capital structure.

So if Qwest ends up in bankruptcy court, the holdouts stand to collect even less of the meager leftovers than do the exchangers. Even if the company staves off Chapter 11 for now, the holdouts won't appreciate it lockstep with the senior paper. Some will have to wait until maturity (which may be as late as 2031), hoping all the while that the company will be able to keep paying interest and principal on the bastard bonds in the meantime. Such is the fate of the poor souls (holding 8% of the \$325 million original issue) who snubbed XM Satellite Radio's exchange offer for bonds paying 14%, due March 2010. Exchangers got new obligations paying zero until December 2005 and then 14% until a 2007 maturity date, plus some warrants.

Sometimes the debtor offers an equity exchange, but that may or may not kick up their returns. Bondholders and other lenders to Sirius Satellite Radio were asked to swap \$700 million of debt for 62% of the outfit's near-worthless equity. If not enough creditors took the rotten deal, then Sirius threatened to file for Chapter 11, where God knows what would happen.

In their heydays AOL Time Warner, Ford Motor and General Motors were as blue as blue chips could get. Now they are squirming. Ford Motor Credit, the carmaker's financing arm (see story, p. 60), has \$150 billion in debt rated BBB by Standard Poor's. This debt is backed by loans to car buyers. What happens if the car buyers get laid off and a glut of used cars depresses resale values? General Motors Acceptance Corp. owes \$170 billion and its parent has a pension deficit of \$19 billion. GMAC's rating is down from AAA in 1979 to BBB now, and it could go lower.

If sick sister AOL Time Warner sells assets to pay down its \$24 billion in debt, things will be fine. That's how the story lies in the financial press goes. Still, what will the company be after some of its best assets are gone?

Sirius and XM Satellite were dicey companies, but Qwest wasn't. Any company can slip into downgrades and restructurings. If you find yourself on that slippery slope, get off before you hit bottom.



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Turtle Stocks

MY COMPANY'S LOGO IS A TURTLE. WHAT AESOP wrote in 550 B.C. remains true: Slow and steady wins the race. Like the tortoise in the fable I am content to plod steadily and deliberately along while the Wall Street hares feverishly hop after the latest fad. But patience is not the turtle's only virtue.

Its singularly unique trait is that during times of danger it can pull its head, feet and tail inside its shell. This is an undeniable time of danger, when good defensive stocks make sense. Even Warren Buffett, the stock market's best foul-weather friend, is publicly gloomy. Such a pessimistic time, though, presents an excellent opportunity to upgrade your portfolio quality.

Turtle-like companies are great businesses that attract customers again and again, with brands that command huge market share and near-insurmountable barriers to entry. These are companies that rule in consistently stable industries and won't be thrashed by the whims of market pundits.

I can't guarantee that these stocks won't be knocked down. But I am optimistic that courage will be rewarded. It is said the turtle makes progress only when he sticks his neck out. Investors in this market are no different.

Another sage, Benjamin Franklin, said there are only two things you can count on in life: death and taxes. **Matthews International (23, MATW)** is banking on everyone's ultimate fate, regardless of tax bracket. The company is the U.S.' leading manufacturer of bronze memorial products (cemetery plaques and urns, including Elvis Presley's grave marker), commemorative items (building plaques and monuments) and mausoleums. Matthews is also the second-largest producer of caskets in the U.S., behind Hillenbrand Industries.

With pricing power and limited competition Matthews dominates the death-care market—an extremely consistent and predictable industry that earns attractive rates of return, requires very little capital reinvestment and nevertheless is hard to penetrate. Over the longer term the business will benefit from the inevitable demographics of the baby boom (people born between 1946 and 1964). What's more, that bronze memorials, Matthews' spe-

**What to buy in an
iffy market like
this? Slow and
steady wins the
race: defensive
companies with
stable positions in
their industries and
with decent growth.**



cialty, are increasing in popularity and are making inroads on traditional headstones.

Matthews sells for 18 times trailing earnings and 16 times forward earnings. Its current price represents a 23% discount to my \$30 estimation of its intrinsic worth.

Valassis (24, VCI) produces billions of coupon and advertising inserts found in newspapers, touting household products that run the gamut from Windex to Colgate toothpaste. In February Valassis further extended its reach by acquiring NCH, the world's premier coupon-redeeming outfit; NCH also has a superb market-research operation. Valassis also has a presence online as an investor in Coupons.com.

Management has shown astute allocation of Valassis' strong free cash flow (in the sense of cash flow from operations minus capital spending), using most of it to buy back stock. One of two members of a near-duopoly—News Corp. is the other—Valassis enjoys strong relationships with consumer product companies, enabling the stock to perform well in the toughest of economic cycles. Valassis sells for 10 times trailing earnings and 11 times forward earnings. The market price is a 37% discount to my \$38 estimation of its intrinsic value. The stock, which hit a high of \$46 in 1999 and as recently as last year went for \$41, has suffered because of News Corp.'s aggressive pricing. But Valassis has recovered from previous price wars.

Small towns thrive on small talk, which is why the shell of **CenturyTel (28, CTL)** is hard to crack. The company is a leading U.S. rural local exchange carrier, providing telecom services to 22 states, with 2.5 million local access lines.

Interestingly, CenturyTel's disregard of all places metropolitan is what has helped it establish a base. Bigger, ever-consolidating rivals find difficulty entering its market. Come recessions, wars and bear markets, CenturyTel's phone lines aren't going anywhere.

In 2001 the company defeated the efforts of a \$6.1 billion hostile takeover by competitor Alltel. Then in 2002 CenturyTel chose to sell its wireless business to Alltel to concentrate on its core fixed-line business. Good timing: Cellular spectrum has been falling in value.

My intrinsic worth is \$36 for CenturyTel; market value represents a 22% discount. CenturyTel trades for 15 times trailing earnings and 13 times forward earnings.



John W. Rogers Jr. is chairman and chief executive officer of Chicago-based Ariel Capital Management, Inc., the adviser to the Ariel Mutual Funds. Visit his home page at www.forbes.com/rogers.



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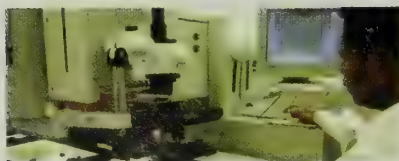
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Shipshape

How good is health care on those big cruise lines? BY ALIYA STERNSTEIN

THAT'S MASSIVE CRUISE SHIP BOAST FULL SERVICE: sushi bars, fitness centers, casinos and pools. But now, after the nasty norovirus sent passengers on a passel of cruise lines running to the bathrooms, an unflattering spotlight is being cast on that less-glitzy ship amenity, infirmary. Last summer and fall 880 passengers on two Holland America ships reported symptoms of stomach and intestinal distress. The cruise line pulled the ships from service to dissect them. Class actions were filed in the U.S. and Canada seeking damages for the passengers.

This brings up a related question: Are cruise lines any good tending to the ill? It was a lot worse a decade ago, until a 1995 survey published by two crusading doctors exposed disturbing gaps in onboard medical care. Then, many ship doctors couldn't take X rays or diagnose heart attacks. Some ships

had no English-speaking doctors.

Today the big cruise lines, including Royal Caribbean, Princess and Holland America, strive to meet or exceed guidelines passed by the American College of Emergency Physicians. The new megaships are likely to have lots of fancy equipment. First European Cruises' *Mistral* offers dialysis. The new *Coral Princess* has a high-speed satellite link to allow onshore radiologists to view X rays taken at sea.

Yet gross lapses in care still come to light now and then. In early 1998 Roger Benson's 13-year-old son, Noah, suffocated after an allergic reaction to shellfish on a three-night sail from Miami to Key West on Norwegian Cruise Line's *M/S Leeward*.

The family sued the line for malpractice, claiming it hired an inexperienced 27-year-old doctor who unsuccessfully tried several times to intubate Noah's lungs. On the sixth attempt, the boy's





Emergency on the Lido Deck

A decade after poor medical care made waves, the sailing's smoother for sick passengers. But while Carnival Corp. owns cruise lines Cunard, Holland America and Windstar, as well as Carnival, medical care differs among all the majors.

Cruise line/No. of ships	Medical staff/passenger ratio	Medical staff experience	CDC ship sanitation score ¹	Infirmiry beds per ship	Comments
Carnival/18	1:540	3 years	Best: 100 Worst: 89	4-7	Good: Ready for cardiac and respiratory emergencies. Bad: Recently detected outbreaks of gastrointestinal illness on two ships.
Cunard/2	QE2 1:360 Caronia 1:325	5	Best: 92 Worst: 91	QE2 10 Caronia 3	Good: Long-standing reputation. Some dental care. Bad: The QE2 recently failed a sanitation inspection but passed subsequent reinspection.
Disney/2	1:540	3	Best: 99 Worst: 92	8	Good: Extremely patient; kid-friendly. Bad: Investigation of gastrointestinal illness outbreak.
Holland America/Windstar/14	1:235	3-4	Best: 97 Worst: 86	7-10	Good: High-tech radiology capability on newest ships. Bad: Facing several lawsuits over norovirus outbreak.
Norwegian/9	1:475	3-5	Best: 100 Worst: 93	4-9	Good: Medicine supply comparable to well-stocked shoreside pharmacy; does pregnancy tests. Bad: Recently accused of hiring inexperienced staff.
Princess/11	1:380	3	Best: 100 Worst: 91	6-8	Good: Blood work, lots of defibrillators. Bad: Sun Princess had norovirus outbreak. Ship sanitized; no subsequent problems.
Royal Caribbean/Celebrity/25	1:400	3	Best: 100 Worst: 86	7-9	Good: Cardiac consults by the prestigious Cleveland Clinic. Bad: Med staff ratio varies widely, as on other lines.

¹ Based on those ships judged in the past year. A score of 86 or higher is considered acceptable.
Sources: Cruise lines; Centers for Disease Control and Prevention; Forbes.

lawyers claim, the doctor improperly intubated Noah's stomach. He died before the doctor could finally get it right. The doctor, whose medical degree was from South Africa, had less than three years of post-medical school experience, say the lawyers. "[It's] scary how little vetting they do," Benson says, five years later.

Complicating the Benson legal case is the Death on the High Seas Act, which protects cruise lines from malpractice and wrongful death lawsuits. If a death occurs on a ship that's more than 3 nautical miles from the shore of any U.S. coastal state, the cruise line is responsible for paying economic damages only and not the higher awards for pain and suffering. The Benson medical malpractice lawsuit remains pending in a Miami trial court, after a Florida appellate court ruled that Norwegian's ship was within state waters. "It's mercenary. They make huge amounts of money, and they're not accountable to anybody," Benson says.

Norwegian declined to comment on the lawsuit but noted that it requires physicians to have at least three years of post-med school experience and to be able to converse in English.

Such horror stories are rare, as were the recent outbreaks of gastrointestinal illness. Ship docs mostly treat seasickness, scrapes, sunburn and heartburn. About 4% of the 7.4 million U.S. residents who took cruise vacations in 2002 visited a ship's medical staff. But cruise medicine is still a self-regulated business, and each line sets its own standards—keeping one eye firmly on costs. "The cruise industry doesn't want to regulate for the same reason automobile makers didn't want to implement seat belts," says Dr. Richard Prager, medical director of the

intensive care unit at Miami's Baptist Hospital. He coauthored that influential 1995 report with fellow physician and attorney Bradley Feuer. "Medical facilities are viewed by most cruise line as a cost center rather than a revenue generator," says Feuer.

Sometimes cruise lines come through majestically. Sharo Dodd, a 65-trip cruise veteran and the editor of the online publication Cruise Critic, once witnessed the evacuation of a passenger by a Coast Guard chopper hovering outside her balcony.

The best advice for passengers of any age is to be prepared. Washing your hands after visiting the little sailors' room is the best way to avoid catching or spreading norovirus. Pack a first aid kit with tape and bandages, an antibiotic ointment like Neosporin, an over-the-counter pain reliever and nonprescription medications for colds, motion sickness, heartburn and diarrhea. You may want to throw some scissors and a Swiss Army Knife into your checked luggage. Also take a small bottle of an alcohol-based hand sanitizer, such as Purell, for cleaning your hands when the soap dispenser is empty.

Be aware that a visit to a ship's infirmary is not typically covered by Medicare or private-pay health insurance. Visits run \$50 to \$70, about the same as onshore, plus the cost of medication and tests. If you're the worrying type, you might want to look into supplemental travel medical or evacuation insurance offered by travel agents and at Insuremytrip.com. The tab assesses the biggest operators by common health measures. The anecdotal consensus among cruise critics and landlubbing doctors is that Holland America stands a bit above the pack.



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Some Nerve



Potent pair: Andrew Elkwood and Matthew Tobin offer hope for a post-op sex life.

A new procedure for prostate removal might make life without it more worth living. BY LEIGH GALLAGHER

THE QUARTER-MILLION AMERICAN MEN WHO WILL BE diagnosed with prostate cancer this year face an agonizing choice: Have the prostate removed and risk impotency; go for radiation and face a higher risk of not getting rid of all the cancer; or let the cancer go untreated and risk death. The dilemma is most harrowing for the 30% of these patients under 65.

Surgery to remove the prostate is generally the most effective means to eliminate the cancer and by far the most common

choice for those who elect treatment, says the National Prostate Cancer Coalition. But surgery comes with as much as an 80% likelihood of impotence, caused by damage to one or both of the adjacent cavernosal nerves that are responsible for erectile function.

Now a procedure called sural nerve grafting is gaining in popularity for its ability to make surgery a more sex-life-friendly choice. By taking a piece of the sural nerve—a long, straight stretch of nerve that runs along the back of the calf and ankle—and stitching it into the pelvis between the severed cavernosal nerves, surgeons say they are able to preserve erectile function in patients who have had one or both nerves severed.

"You've completely changed the rules of the game," says Andrew Elkwood, a plastic and reconstructive microsurgeon at Jersey Shore Medical Center in Neptune, N.J. He performs the procedure with Matthew Tobin, the Harvard-trained director of urologic oncology. "Now you can have the surgery without side effects."

A small but growing number of specialists now perform the procedure (a urologist and a reconstructive surgeon usually work in tandem) at, among other places, New York's Memorial Sloan-Kettering Cancer Center, the University of Washington Medical Center and the M.D. Anderson Cancer Center at Baylor College of Medicine, both in Houston.

Until recently the best chance to avoid post-op impotence was so-called nerve-sparing surgery, a procedure pioneered in 1982 by Patrick Walsh, director of the Urological Institute at Johns Hopkins Hospital. In this delicate procedure the prostate is removed while every effort is made to keep one or both nerves intact. But some patients are ineligible for nerve-sparing surgery; the cancer resides too close to the nerves to spare them.

Walsh has criticized sural nerve grafting, contending that it encourages people to damage or remove nerves unnecessarily. "I've never cured a body by removing both nerves. I would want to see the results," he says. "I think it's something that's been hyped."

All told, some 1,000 men have had the surgery, and the results are trickling in. In one Baylor study of 66 potent men who had one nerve severed and regrafted, the estimated potency rate at two years was 86%, compared with 39% for a control group who had no sural nerve graft. In a group of 12 men who had both nerves severed and regrafted, 4 were able to have Viagra-free erections.

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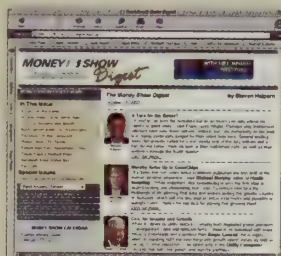
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Health

tions one to three years later; five more were able to have partial erections. The dozen men in the control group with no regrafting showed no return to potency.

A study last fall at Memorial Sloan-Kettering Cancer Center found that 80% of men who had both nerves preserved during surgery recovered potency. That figure dropped to 40% in men who had one nerve severed without a nerve graft, but shot back up to 60% of men who had one nerve severed and regrafted.

"If you take an attitude 'let's be sure we get the cancer out,' you're going to end up [severing] more nerves than someone who takes an attitude of 'let's spare these nerves at all costs,'" says Peter Scardino, chairman of Sloan-Kettering's department of urology.

He performed one of the first nerve-graft procedures while at Baylor in 1997. "If you have to face a choice, it's more important to completely remove the cancer."

Sural nerve grafting is a tricky procedure. While most parts of the male body are larger than the female's, the male pelvis is smaller; the difficult-to-reach prostate resides behind the genitals deep in a hole surrounded by muscles and large blood vessels, in addition to the erection-inducing nerves. "God never wanted it to be removed," says Tobin.

The cavernosal nerve itself is made up of tiny little fibers, while the sural nerve more resembles a cable, making fusing them together difficult. Elkwood and Tobin use new collagen nerve tubes as fasteners, tucking the fibers of the stringy cavernosal nerve into the tube for easier connection to the sural nerve. They also use customized instruments to reach the nerves and magnification glasses to see them.

Because the cavernosal nerves are low to regenerate, it can take up to three

Pick Your Poison

Choosing the right treatment for prostate cancer depends on how far along the cancer is and how willing a patient is to trade off risk against quality of life. Here are the usual choices.

• Radical prostatectomy with nerve-sparing

WHAT IT IS Removal of the prostate with every attempt made not to sever cavernosal nerves.

PROS Can preserve erectile function.

CONS Risk of not removing all the cancer.

• Radical prostatectomy with nerve grafting

WHAT IT IS Prostate removal followed by replacement of severed cavernosal nerves.

PROS Can preserve erectile function yet removes cancer-ridden nerve tissue.

CONS Still unproven in clinical trials; recovery of erectile function could take longer and be incomplete.

• Radiation

WHAT IT IS External X rays or use of internal isotope-laden "seeds."

PROS Minimally invasive; can eliminate early-stage cancer.

CONS X rays: bowel dysfunction; lower long-term efficacy. Seeds: potential impotence; unproven long-term efficacy rate.

• Cryotherapy

WHAT IT IS Surgically freezing the cancer.

PROS Minimally invasive; short recovery.

CONS High risk of impotence; long-term results unproven.

• Hormone therapy

WHAT IT IS Drugs or testicle removal to deplete testosterone.

PROS Temporarily halts cancer.

CONS Does not eliminate the cancer; side effects include loss of libido and hot flashes; may cause breast enlargement.

• Watchful waiting

WHAT IT IS Doing nothing.

PROS Avoids side effects of other treatment options.

CONS Risk of succumbing to disease.

years for full recovery. Some patients see results in less than a year. Patients might experience numbness on the outside of their ankle about the size of a half-dollar, but that's a small price to pay for healthy sex life.

So says Stephen Roberts, a 62-year-old criminal investigator for the Department of Defense who underwent the surgery in April 2002 and was awakening four months later with erections—a key indicator of unaided virility. "How many women would want a guy with a brooding-a-ling?" says Roberts, a father of six. "It's not an easy subject."

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Speed Thrills

Want to go 200mph in a passenger car?
You can't on a U.S. track—too dangerous.
Go, instead, to permissive Italy.

BY JAMES M. CLASH

MY FATHER WAS RIGHT: I WANTED TO TAKE A MUR-
ciello to its top speed of more than 200mph.
Lamborghini's managers agreed to let me try.
Why allow an amateur to attempt something so
dangerous? "There's a slight doubt in the cus-
tomer's mind as to whether our cars can really go that fast,"
says Giuseppe Giamini, Lamborghini's chief executive.

It is next to impossible to do this in the U.S. Believe me, I
tried. Even if you can find a car capable of 200mph, only a

few test tracks—owned by automakers—are large enough, and
they won't let outsiders in. Super speedways—Daytona,
Fontana, Indianapolis, Michigan and Talladega—aren't inter-
ested in taking a chance on potential lawsuits. A race car is built
to withstand (up to a point) the stress of a high-speed collision;
a production sports car is not. In Europe there's a more relax-
ed attitude: If you want to kill yourself, go right ahead.

I met the Lamborghini staff at Nardo Prototipo, a four-
lane, 7.8-mile-long circular track in southern Italy where I



ri, Maserati and other exotic car makers test. A support crew of six was on hand, along with the company's professional tester, Giorgio Sanna, plus Greco himself.

Lamborghinis are rare machines. Not quite 10,000 have been made, all by hand, since the company's inception in 1963. The line includes the Miura, Silhouette, Urraco, Countach and Diablo; but none (other than a few late-model Diablos) are capable of the Murcielago's speed. Only one new production car, the Ferrari Enzo, is faster. A 12-cylinder, 6.2-liter engine

produces 580hp, pushing the Murcielago from 0 to 60 in 3.7 seconds and to a top speed near 205.

Volkswagen Audi bought Lamborghini in 1998 and poured \$150 million into factories and R&D. The company produced 420 cars last year, up from 297 in 2001. A third went to the U.S., where the price tag for the Murcielago is \$287,000, plus taxes. This year, with the introduction of a smaller Murcielago—the Gallardo—retailing for 20% less, Lamborghini plans to quadruple production to 1,700 cars.



The forecast for Nardo—strong winds and showers—didn't bode well. To run 200mph, you need a dry track and no wind. My hosts and I decided to beat the weather by starting early. When I looked out my hotel window at 6 a.m. the sky was overcast, but there was no wind—and no rain. We had a chance.

I climbed into the car—which, with its winged doors open, looks like a spaceship—strapped on my helmet and belted in. Racer Sanna explained that to get above 200, I needed to be in the far outside lane because it is banked the steepest, 12 degrees.

"If you want to kill yourself, GO RIGHT AHEAD."

(The steeper the banking, the more grip the tires have on the track surface at high speed.) That meant that as I traveled counterclockwise, the right side of the car would come to within a few feet of the steel guardrail.

After a few warmup laps I put the animal (Murcielago is named after a famous bull from the 19th century) into first gear, and slowly released the clutch. The muscle was there, for sure. Yet the car was quiet—and smooth. I shifted up through five gears into sixth, made my way to the outside lane, and gritted my teeth.

As I broke through 180mph, a kind of tunnel vision took over. You stare so intently at the road—a wide, constant curve—that nothing registers peripherally. For an instant I thought about what would happen if one of the Pirelli tires blew—or if an animal scurried in front of me from the surrounding woods.

An accident at that speed would mean instant death (for the critter, too).

The pedal was now firmly planted on the floor ... 195 ... 198 ... 200 ... 205. Distance markers flew by as I traveled the length of a football field each second. Oh, it was fast all right but peaceful, too. In the open-wheel race cars I had driven previously the noise was deafening. Here, in a luxurious cockpit, I was able to enjoy the world above 200mph. If I hadn't had other things on my mind, I could have listened to the radio.

I backed off the throttle. Earlier Sanna had explained to me that the day's air temperature (83 degrees Fahrenheit) was too warm to sustain top speeds for long—the engine would overheat. As I parked, I glanced at the trip speed registered on the dashboard: 208mph. Wow! That was as fast as anyone had ever driven a Murcielago.

As I exited the car, I half-jokingly asked Giuseppe Greco if he wanted to join me for another try at 200mph. To the audience's gasps of his *p.r.* people, he agreed. I took him up to 205. He never flinched. That's what I call faith in your product.

Adapted from Forbes' book To the Limits: Pushing Yourself to the Edge—In Adventure and in Business by James M. Clash (\$27.95, John Wiley & Sons, April 2003).

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Picasso to Go

An original work for as little as \$500? *Zut!* The frames are worth that much.

BY SUSAN ADAMS

A TROVE OF 620 PICASSO LITHOGRAPHS goes on the block Apr. 28 at Christie's in New York with no reserve (minimum) prices. That means that if you bid low on a piece and nobody tops you, it's yours.

Christie's won't name the seller, a Japanese industrial conglomerate that bought the work at the height of the 1980s art bubble and must now, because of financial pressure, get rid of it. Estimates on some of the smaller still lifes are as low as \$500, but gavel prices could fall even below that, says Jonathan Rendell, head of Christie's print department.

Why such bargains? These are not signed lithographs in a standard print run of 50, but rather "printer's proofs," made by Picasso in the Paris studio of his famed

he didn't come to lithography until he was 64. While other artists made no more than one print per day, Picasso often produced as many as ten different images in a single session.

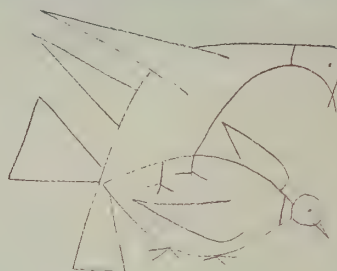
Picasso obsessively dated his work, so each piece has a date written in his own hand in a mirror image, since he inscribed it directly onto the lithography stone. A lithograph (Greek for "stone writing") is made by applying a greasy crayon to limestone or zinc. Before printing, the stone is washed with ink and water. The oily ink sticks to the crayoned markings, which then register as the printed image.

Though printer's proofs are original, unique and dated, collectors prefer signed, editioned prints, which can fetch

Cup" (estimated at \$2,000 to \$3,000) to the voluptuous, abstracted "Women of Algiers" (\$15,000 to \$20,000). The latter is Picasso's 1955 interpretation of Delacroix's paintings of four North African courtesans, was created in honor of the recently deceased Matisse.

Most of the lithographs are domestic in feeling. Picasso's lover Françoise Gilot is the subject of "Armchair Woman." There is plenty of food, as in the spare, charming "Still Life with Apple and Knife" (\$1,000-\$1,500), inspired by the scarcity of victuals during World War I. Other images depict Picasso's pet owls, pigeons and doves.

Progressive proofs that show how Picasso altered a series of images, redrawing on a single stone, are grouped as original



"The Black Cup" (low est. \$2,000), "Two Turtledoves" (\$5,000) and "Armchair Woman No. 1" (\$1,500).

lithographer, Fernand Mourlot. Picasso did not sign them because they weren't intended to be multiple editions.

Arguably, they are more interesting than the editioned prints, since they show the artist's creative process. Picasso tended to work and rework pictures, such as his famed "Armchair Woman" series, of which Christie's has 28 examples.

The prints are signed by Mourlot, who was the go-to guy for a long list of artists including Miró, Chagall, Braque, Léger and Dubuffet. Of these Picasso was easily the most productive, even though

prices three times higher. "Collectors want the most beautiful impression, with full margins, signed as they're supposed to be signed," says Alexandra Schwartz of Pace Prints gallery in New York. In print collecting, uniqueness is not an attribute.

Ironically, Picasso did not sign any of the work in his own collection. He only signed pieces he was planning to sell. So the Picasso Museum in Paris, for instance, which displays work from the artist's collection, has little signed work.

The pieces at Christie's range from the straightforward, accessible "The Black

lot, such as the series of 12 prints entitled "Two Nude Women." The woman who seated starts out looking like Françoise but is finally transformed into Picasso's former mistress, Dora Maar. That lot is estimated to sell for \$35,000 to \$45,000.

The pictures, each in a high-quality frame worth a good \$500 (not factored into estimates), will be on display at Christie's Rockefeller Center gallery Apr. 24-27. If you miss the sale, the J. Krugier Gallery in New York (representing the estate of Picasso's granddaughter Marina) also sells printer's proofs.

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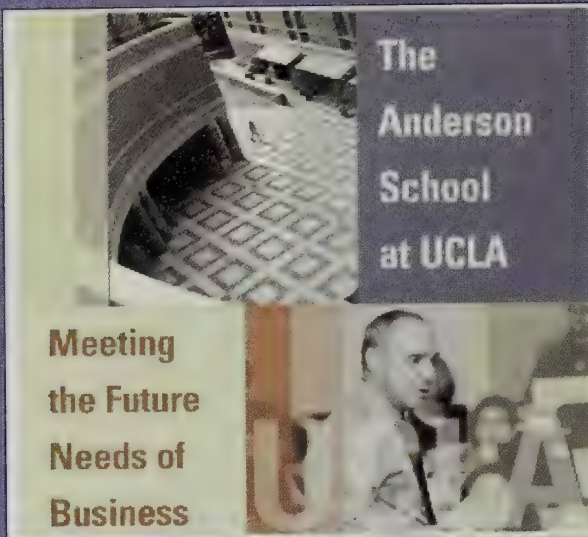


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THOUGHTS

On the Business of Life

The United Nations is gaining in prestige. Soviet hamstringing tactics are becoming more effectively and promptly rejected. Russia apparently is being reluctantly impelled to recognize how impressive has become acceptance of U.N. leadership by all non-Communist countries. Ostensibly, conciliatory overtures are being made, but always with sinister Soviet design, unacceptable to freedom-loving U.N. members. This writer sees no reason for altering his long-voiced view that Russia is not prepared for another World War. —B.C. FORBES (1950)

There's no such thing as a crowded battlefield. Battlefields are lonely places.

—LT. GEN. ALFRED M. GRAY

Humanity should question itself, once more, about the absurd and always unfair phenomenon of war, on whose stage of death and pain only remains standing the negotiating table that could and should have prevented it.

—POPE JOHN PAUL II

The main thing that endears the United Nations to member governments, and so enables it to survive, is its proven capacity to fail, and to be seen to fail.

—CONOR CRUISE O'BRIEN

In war, you win or lose, live or die—and the difference is just an eyelash.

—DOUGLAS MACARTHUR

Modern war needs modern lingo.

—WILLIAM SAFIRE

It takes 20 years or more of peace to make a man; it takes only 20 seconds of war to destroy him.

—BAUDOUIN (KING OF BELGIUM)



The stench of death massaged my skin; it took years to wash away.

—JAMES WILDE

I wondered vaguely if this was when it would end, whether I would pull up tonight's darkness like a quilt and be dead and at peace evermore.

—WILLIAM MANCHESTER

War: first, one hopes to win; then one expects the enemy to lose; then, one is satisfied that he too is suffering; in the end, one is surprised that everyone has lost.

—KARL KRAUS

The most persistent sound which reverberates through man's history is the beating of war drums.

—ARTHUR KOESTLER

To delight in war is a merit in the soldier, a dangerous quality in the captain, and positive crime in the statesman.

—GEORGE SANTAYANA

There are two things which will always be very difficult for a democratic nation to start a war and to end it.

—ALEXIS DE TOCQUEVILLE

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Be of good courage, and he shall strengthen your heart, all ye that hope in the Lord.

—PSALMS 3

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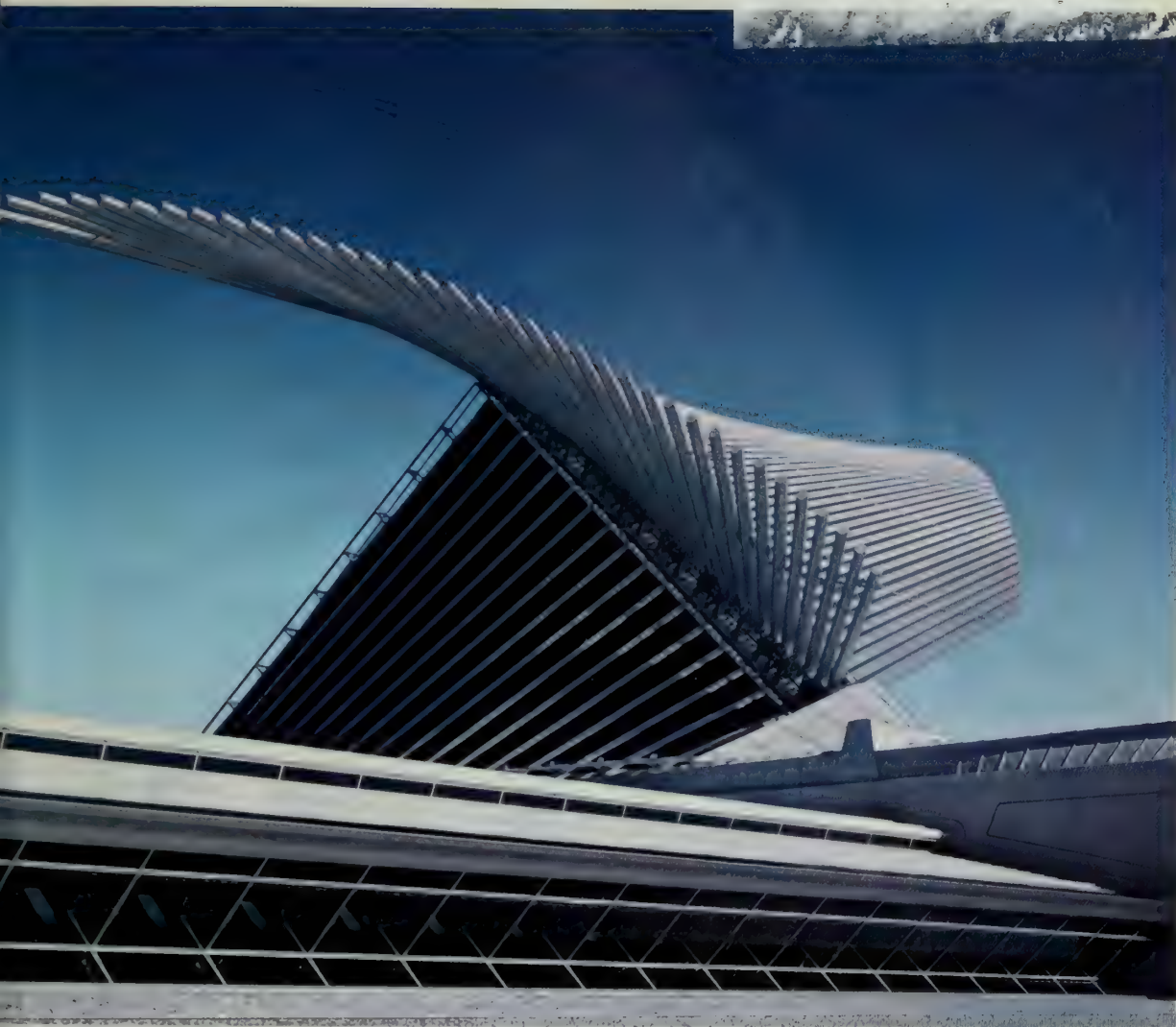
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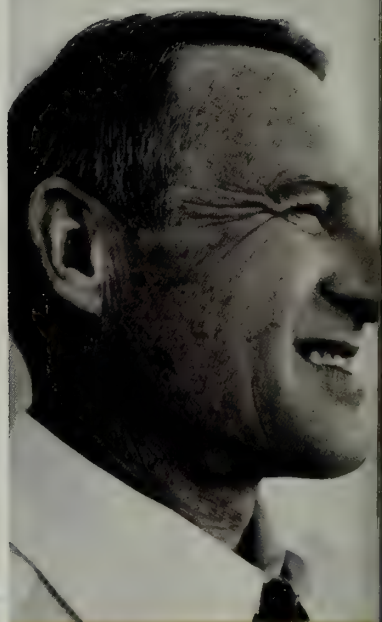
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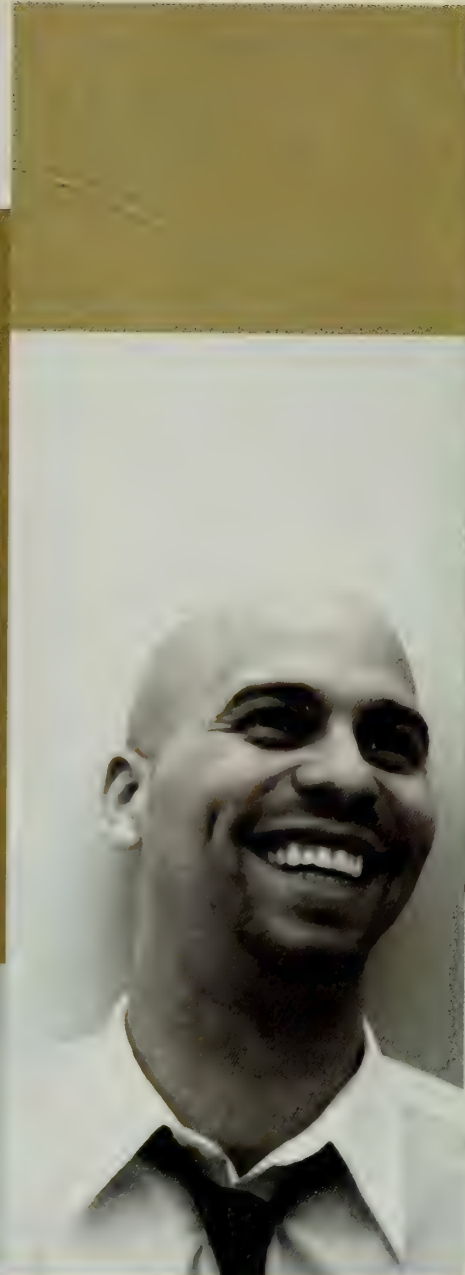
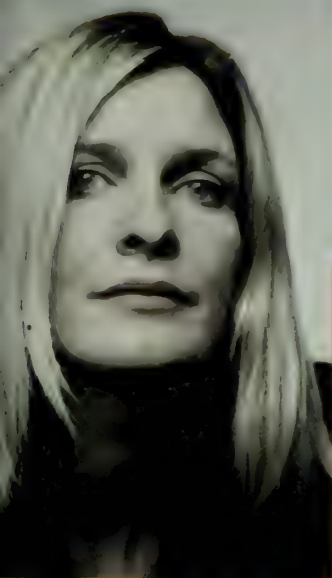
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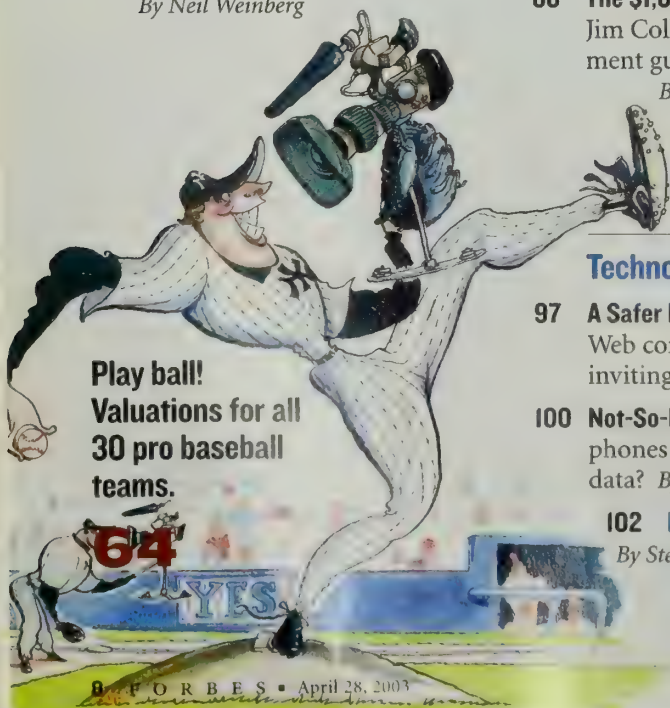
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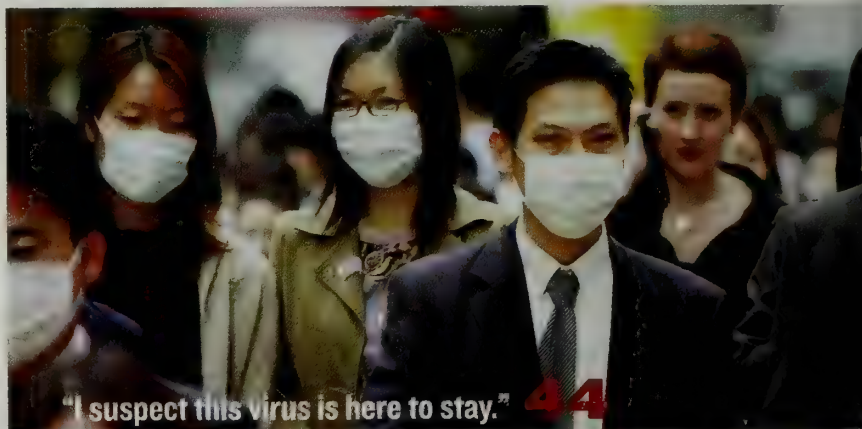
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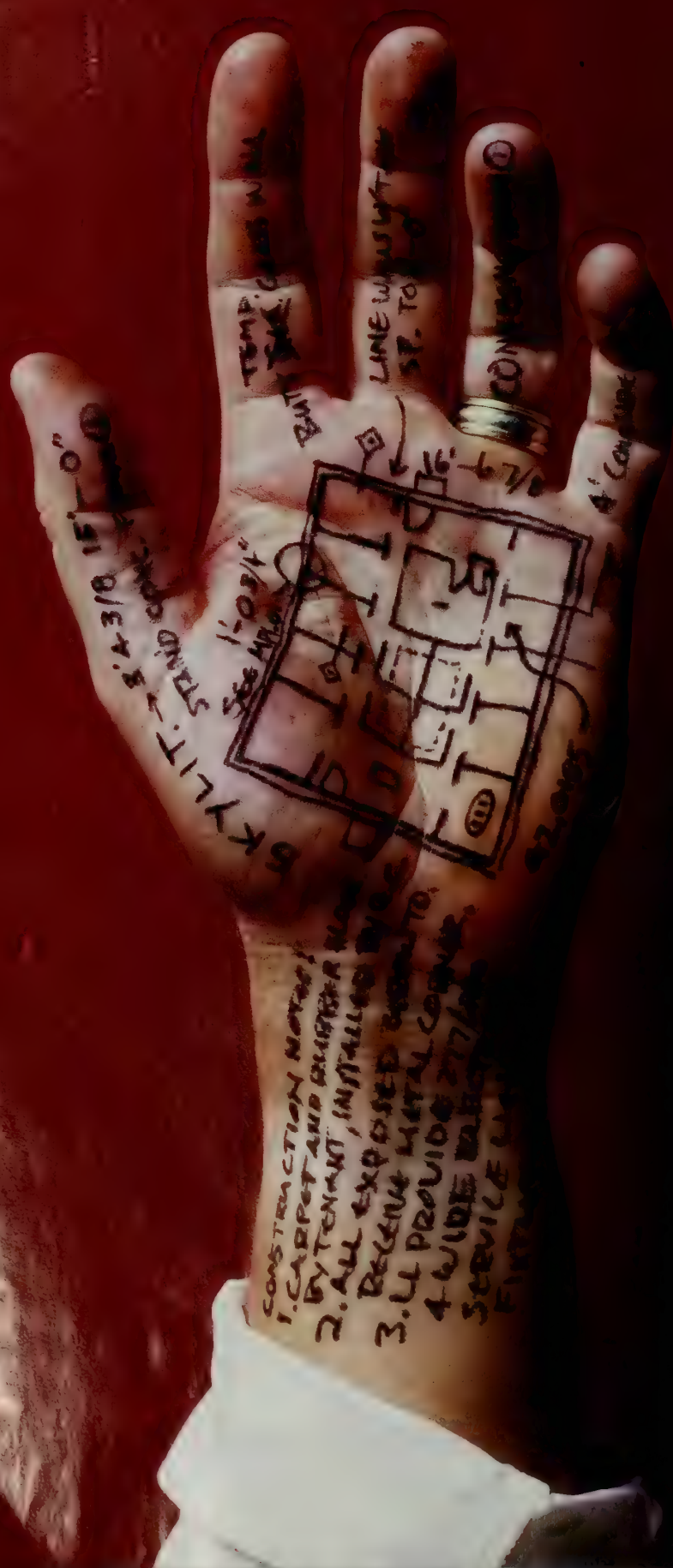
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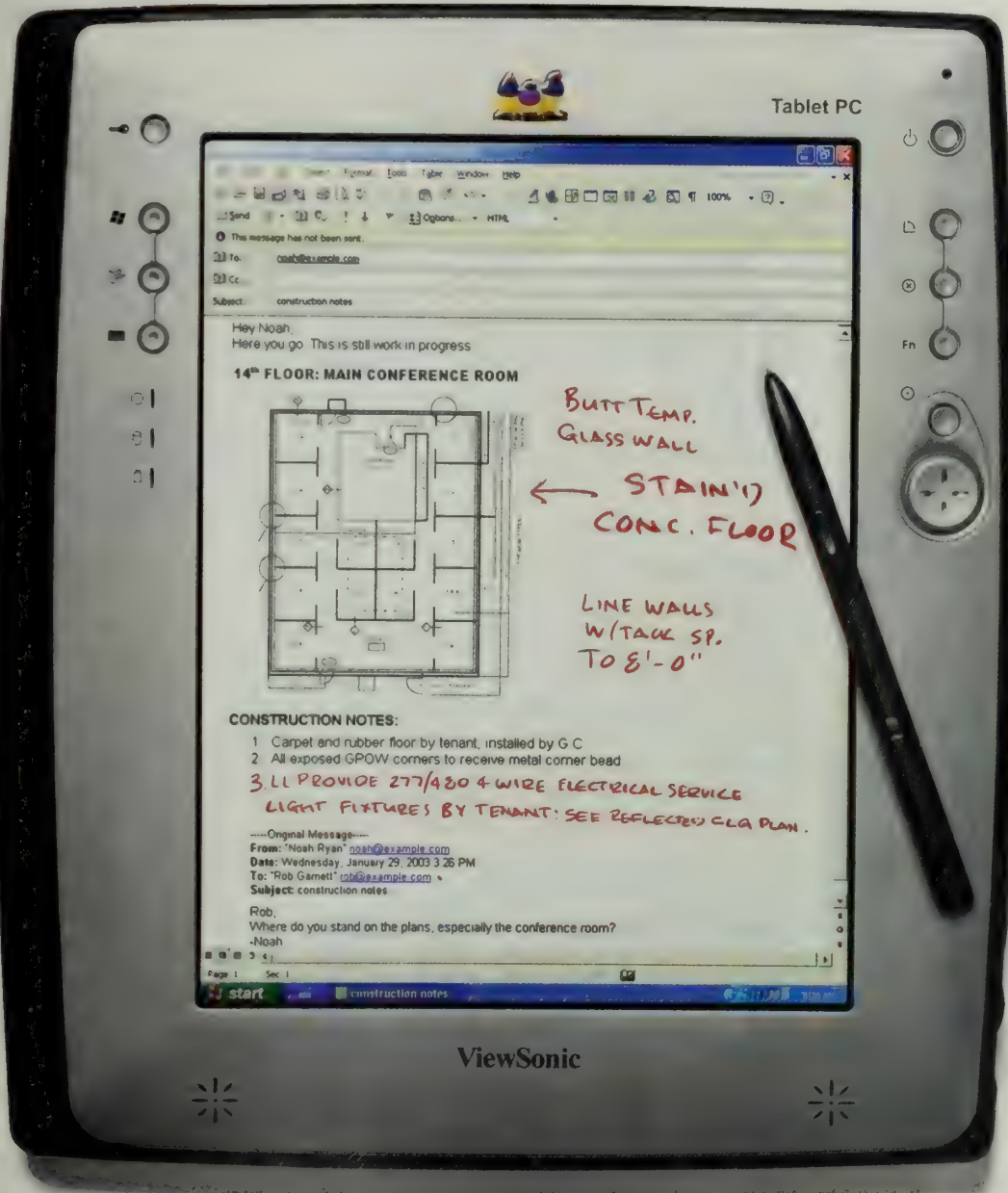
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Fastest-Growing Tech Companies

Vivian Woo

Growth isn't dead in the technology sector. We've found companies with a great track record and a promising future. Companies with good ideas for everything from cancer drugs to space electronics—and good execution of those ideas—can still grow at an extraordinary pace, even in this economy. The 25 members of our list are all profitable, have at least \$25 million in revenue, a five-year sales growth rate of at least 30% (annualized) and at least a 5% revenue growth rate in the most recent 12 months.

Lifestyle

Hot Zones

Christina Valhouli

The growing alarm about the spread of severe acute respiratory syndrome has hit the airlines and the travel industry hard. But China and Hong Kong are not the only countries plagued with infectious diseases. Potentially deadly diseases such as Ebola, cholera, typhoid fever and even plague kill many hundreds every year, and, if left unchecked, could kill many times that number. Forbes.com compiles a list for the business traveler of the world's most dangerous "hot zones," from Brazil to Zambia.

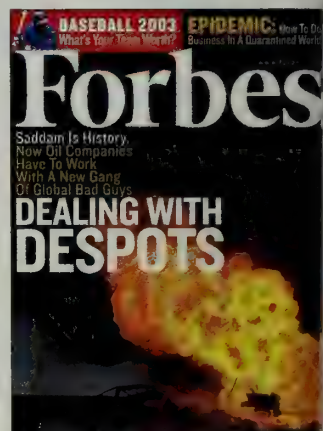


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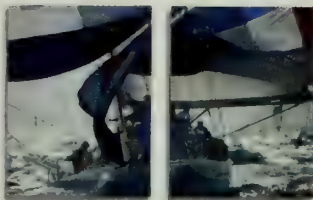
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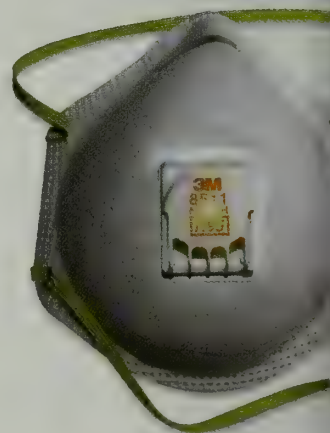
Where's My Face Mask? If you want to be like the germophobic journalist Bensinger in *The Front Page*, go ahead and wipe down the doorknobs with bleach. Your neuroses may be justified.

In all likelihood the Asian pneumonia will stop short of epidemic proportions in the U.S. (see p. 44). Even if the virus cannot be contained, it will probably have a death rate here well below the 4% seen abroad. But who can say for sure? If your life is worth \$2 million and you figure wearing a face mask will reduce your likelihood of dying by 1 in a million, a \$2 mask is a good investment.

At least, in making such a calculation, you would be applying more rationality than your fellow citizens do in matters of health and safety. Start with the budget of the Centers for Disease Control & Prevention. The agency has \$184 million for combating industrial diseases but only \$424 million for combating natural epidemics. The ratio is not even 3-to-1 in favor of defending ourselves from contagious natural diseases. It should be 30-to-1. If we weren't so preoccupied worrying about nuclear power, we would be better equipped to fight influenza.

Research by University of Oregon psychologist Paul Slovic and others has shown how people's assessments of risk are warped by emotional factors. We are instinctively more fearful of things beyond our control (like airplanes) than things within our control (cars), even though statistics say that the car is the riskier vehicle. We also fear artificial things more than natural things: DDT more than malaria, the hormones in beef rather than the fat, the wacko with anthrax rather than the next-door neighbor sneezing coronavirus.

These visceral responses have infected our policymaking. W. Kip Viscusi, an economist at Harvard Law School, has documented the lopsided payoffs from different kinds of government regulations. Some car safety rules (like mandatory seat belt use) cost a tiny amount and save lots of lives. Contrast the 1989 asbestos ban: It is saving lives at a cost (translated into today's dollars) of \$19 million per year of life saved. A tough regulation on landfills comes in at \$3.3 billion per year of life. A rule treating wood preservatives as hazardous waste runs \$1.2 trillion per year of life saved. At work here is a populist myth that business causes most cases of cancer. The truth is that Mother Nature is much bigger enemy.



William Baldwin

EDITOR

Life is too short to worry about your insurance.



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READERS SAY

Environmental Performance

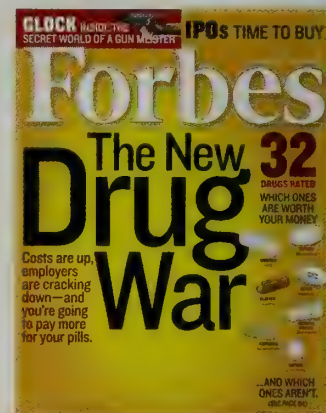
Steven F. Hayward's complaint about sustainability in "The Triple Bottom Line" (Mar. 17, p. 42) completely misses the point. PwC believes that investors need more nonfinancial data, including information about a company's economic, environmental and social performance. That is why we support efforts to develop a global standard for "triple bottom line" reporting. Leading 21st-century corporations will understand how to align their needs and the needs of society—creating an external value chain. Investors want to know what management knows, and as such information becomes more available, as is certain, outside stakeholders will be in a better position to exercise more influence over corporate decision making. Those companies that learn how to share information and power with their stakeholders will prosper; those that don't will flounder. It is ludicrous to suggest that BP and others are changing their business models merely to "get cheers from greens." These companies have glimpsed the future and are moving forward to embrace it.

ANDREW W. SAVITZ

Partner, PricewaterhouseCoopers LLP
 Boston, Mass.

Home Ownership

The Hero bond, described in "Financing for the Masses" (Apr. 14, p. 86), is a novel approach in financing home ownership for lower- and middle-income families, but the concept is fundamentally based on a well-tested economic phenomenon: wholesale purchasing power. Aggregating demand through the Hero structure will bring the same wholesale price benefits to home buyers, lowering the cost of entry by reducing or eliminating the developer risk premium and marketing costs currently built into the retail price of a home. Thus, concerns about low-cost Hero homes dragging down property values are unfounded. A particular home in a Hero community will be no different than other residential real estate in terms of its market value to retail



Drug Money

I read with interest "The New Drug War" (Mar. 31, p. 85). As a pharmacist with over 30 years' experience, I have a great interest in helping my customers contain their prescription costs, insured or uninsured. Many prescriptions cost too much because the prescribers are unaware of, or have forgotten, more cost-effective but acceptable and therapeutically effective alternatives.

JOHN B. BUCKMAN
 Lisbon, N.H.

Our Bill of Rights gives us the right to pursue happiness. When did it give everyone the right to free Prozac? We are a nation of opportunity. I didn't think we were a nation of handouts.

TERRY STEYAERT
 Harrison Township, Mich.

buyers. Hero is all about reducing cost not value.

WILLIAM L. VALENT
 Chief Executive, Heedwork
 Seattle, Wash

Trucking Along

We would like to respond to comment about SCS Transportation in "The Bi-Tune-Up" (Apr. 14, p. 98) about Yellow Transportation, our former parent. SCS has a track record of profitability, healthy balance sheet and strong cash flow. SCST focuses on higher-growth short-haul markets. We deliver excellent

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READERS SAY

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BERT TRUCKSESS

*Chief Executive, SCS Transportation
Kansas City, Mo.*

Roll-Ups

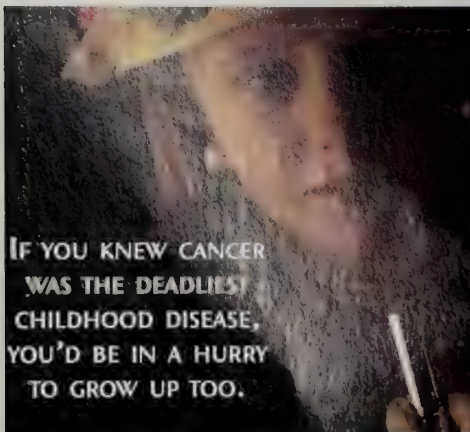
I read with interest "Wrong Address" (Mar. 17, p. 78), about another attempt at consolidation gone awry. What the consolidators and the bankers did not realize is that the paper-and-supplies industry had pushed the costs down to very low levels. The bottom line was that when the consolidator approached his paper supplier to lower the costs for all his shops, he was surprised to learn that there wasn't any more reduction to be realized. Even more interesting to me was an item in your article that stated that most printers stayed one step ahead of the bankers. In some cases the printers that were purchased in this frenzy were in such deep financial trouble that many of us on the supply side would not extend credit.

JOHN SHIPMAN
Fremont, Calif.

Jury Duty

"Fact and Comment" (Mar. 31, p. 27), which commented on "greedy trial lawyers," should have perhaps referred to the real culprit. For each greedy trial lawyer there is a not-so-greedy defense lawyer in opposition. The real cause of the excessive verdicts must be the jurors who don't understand the consequences of their largesse.

CHAMP DAVIS
Oak Brook, Ill.



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*Comparison of profits for fiscal year ending 12/31/02 versus fiscal year ending 12/31/01, excluding national foreign exchange gains and losses, impairment of equity investments and associated tax effects.



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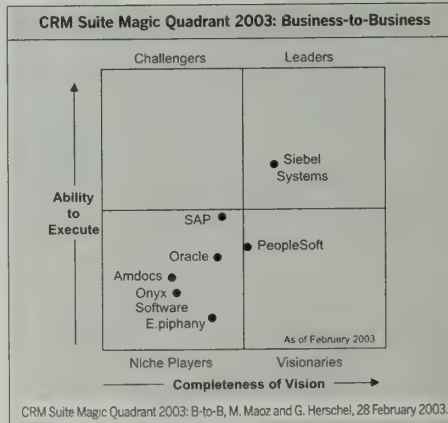
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Pooh-Pooh Pennywise Pols

WASHINGTONIANS, ECONOMISTS AND EVEN A SMATTERING OF Wall Streeters have taken leave of their senses when it comes to financing the Iraq war and that country's rehabilitation. The war itself may cost more than \$100 billion, they wail. Postwar bills may add another \$100 billion to \$200 billion to that. "Under these circumstances tax cuts would be irresponsible!" they cry.

Pass the smelling salts to these fiscal hypochondriacs. Then give them some remedial education. The immediate war costs will come to about 1% of GDP. That's less than $\frac{1}{100}$ of the proportionate costs of World War II, which we smoothly financed with 2.5% bonds. It's $\frac{1}{5}$ of the war in Korea, and $\frac{1}{2}$ of the war in Vietnam. Our national debt today is a little more than

one-third of GDP, which, proportionately, is significantly less than that of any other major nation.

Cutting tax rates? Here the Chicken Littles turn into Daffy Ducks. Tax-rate reductions *always* lead to a stronger economy. To oppose them because the economy is weak is like telling a pneumonia patient to avoid antibiotics until he recovers. These worriers share one of the least attractive traits of certain CEOs today: a myopic focus on the short term. Short term, we have deficits and war costs to deal with. Tax cuts will, in the long term, mean a more robust economy, better jobs, an improving quality of life and more government revenue. Tax-cut opponents thus flunk three courses—history, logic and math.

Bum's Rush for Butcher's Big, Bad Debts

THE IMMEDIATE MATTER THAT POST-SADDAM HUSSEIN IRAQ faces is the massive debt run up by its monstrous ruler. Experts estimate Baghdad is in hock for between \$60 billion and \$130 billion—and that's not counting reparations for the invasion of Kuwait. Those reparations alone could cost \$200 billion. This level of debt for a nation with a GDP of \$32 billion. The lion's share of Iraq's oil revenue could conceivably go just to servicing those obligations.

The U.S. and Iraq's new government should make it clear that Saddam's debts, for the most part, are not the debts of the new, democratic Iraq. The French and Russians will squawk. Baghdad should inform Moscow that its claims will be settled in the same manner that the Soviet Union honored czarist bonds. As for Russia's pending Saddam-era contracts: They should be declared null and void. Jacques Chirac should be told: "This is nothing new for 'La France.' After all, wasn't France the biggest buyer of czarist bonds?" Besides, after the 1991 Persian Gulf war Saddam reneged on most of Iraq's debts anyway.

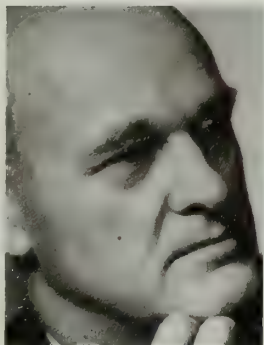
If France gets persnickety and tries to take legal action against the new democracy, Washington should demand payment of France's still-unpaid World War I debts. If the Germans also become difficult, we should dust off delinquent World War I reparations. Creditors should understand: Getting in bed with the devil is not a risk-free proposition.

The UN-run reparations program initiated after the 1991 Gulf war should be quickly wound down. The guilty regime is gone. Its successor should offer to settle claims realistically—say, 20 cents on the dollar over 20 years. The UN-run Oil-for-Food Program should be promptly terminated. Secretary-General Kofi Annan will bellyache because it's been a great slush fund—the UN siphoned off 2.2% of the monies as an administrative fee.

With sensible economic policies, Iraq could easily service the obligations it faces in a generation or two, but not now. To expect it to do so would be similar to telling an organized-crime victim that his new banker is Tony Soprano.

America and Europe—Why We Are Different

ROBERT KAGAN'S OF PARADISE AND POWER: *America and Europe in the New World Order* (Knopf, \$18) is the most refreshing, insightful, groundbreaking piece of foreign policy writing since George Kennan's then-anonymous 1947 article *Foreign Affairs*, which warned of the oncoming Cold War with the Soviet Union and outlined what evolved into the containment strategy that won it. If Bush Administra-



George Kennan



Robert Kagan

tion policymakers in the White House and the departments of State and Defense haven't read this wee masterpiece, they should do so now.

Kagan succinctly, convincingly, lays out why there are such sharp differences emerging between the U.S. and our Cold War European allies; why, indeed, "Americans are from Mars and Europeans are from Venus" when it comes to modern power politics.

"It is time," Kagan writes, "to

stop pretending that Europeans and Americans share a common view of the world, or even that they occupy the same world. On the all-important question of power—the efficacy of power, the morality of power, the desirability of power—American and European perspectives are diverging. Europe is moving beyond power into a self-contained world of laws and rules and transnational negotiation and cooperation. Meanwhile, the U.S. remains mired in history, exercising power in an anarchic Hobbesian world where international laws and rules are unreliable, and where true security and the defense and promotion of a liberal order still depend on the possession and use of military might.”

Actually, Europe’s drifting off into its own self-contained world is an extraordinary achievement of the U.S.’ post-World War II diplomacy. Fifty years ago no one could have imagined that a continent that was drenched in blood from conflicts between its various powers would so rapidly evolve into a union in which war between Germany and France would be utterly inconceivable and in which strides toward once-utopian goals of ever-closer economic integration and political cooperation would be the norm. Force isn’t even conceived of as a way to resolve differences; instead, there are endless rounds of meetings, negotiations and compromises. Given Europe’s current mind-set, the U.S. is wasting its time in trying to persuade the Continent to meaningfully boost military spending.

“The new Europe is indeed a blessed miracle,” Kagan rightly observes, “and a reason for enormous celebration—on both sides of the Atlantic. For Europeans, it is the realization of a long and improbable dream: a continent free from nationalist strife



The 1989 fall of the Berlin Wall crowned the success of U.S. Cold War policies.

of the world the conditions that made Europe’s situation possible.

Everyone would think heaven had arrived on earth if war between major Middle Eastern powers became as unthinkable as war between Europe’s big states is today, if the Middle East evolved, à la Europe, into a strong political and economic union with a common currency and increasingly open borders.

But Berlin, Paris *et al.* need to be reminded that what allowed the Continent to become what it is was the violent defeat of Nazi Germany, the U.S.’ generous postwar help in providing aid and in creating new, liberal institutions, and our military umbrella which gave Europe security on the cheap. With these things in mind, Europe might not view our diplomacy strongly backed by force as “a threat to Europe’s new sense of mission ... an assault on Europe’s new ideals, a denial of their universal validity, much as the monarchies of 18th- and 19th-century Europe were an assault on American republican ideals. Americans ought to be the first to understand that a threat to one’s beliefs can be as frightening as a threat to one’s physical security.”

Kagan raps Washington’s knuckles for insensitivity and needless tactlessness in its approach to international affairs.

“The Bush Administration came into office with something of a chip on its shoulder ... almost eager to scorn the opinions of much of the rest of the world.... [The Administration should] begin to show more understanding for the sensibilities of others, a little more of the generosity of spirit that characterized American foreign policy during the Cold War ... it [should], in short, take more care to show what the founders called ‘decent respect for the opinion of mankind.’”

This doesn’t mean the U.S. won’t wage war again in Iraq if we believe it to be necessary. But we could do a lot to promote our cause in such a crisis if before

things erupt we worked hard to demonstrate that we have sympathy for and an understanding of the concerns and sensibilities of others, even when they don’t reciprocate.

While focused on Europe, Kagan’s book also makes wise observations about the U.S.’ unique role in history, from the time of its birth as a “Hercules in the cradle” to its unprecedented position today. “Americans have been expanding their power and influence in ever-widening arcs since even before they founded their own independent nation.... Their internationalism has always been a by-product of their nationalism. When Americans sought legitimacy for their actions abroad, they sought it not from supranational institutions but from their own principles.”



Giants Charles de Gaulle and Konrad Adenauer cemented Franco-German ties. Political hacks Jacques Chirac and Gerhard Schröder enjoy fruits of their success.



and blood feuds, from military competition and arms races.”

The new, self-absorbed Europe can pretty much ignore what happens outside its boundaries. The U.S. cannot. For much of the rest of the world the rule of the jungle, rather than the rule of law, reigns. And if the U.S. doesn’t play the oft-unpopular role of sheriff, then aggression and terrorism will surge.

The Iraq crisis starkly, rawly exposed the two differing mind-sets. A blood-lusting monster like Saddam Hussein is not going to be persuaded by diplomatic missions making nuanced presentations.

How is Europe to be disabused of the fantasy that its unique situation—which ironically exists, and can only last, under the U.S.’ security shield—cannot be projected onto the rest of the world?

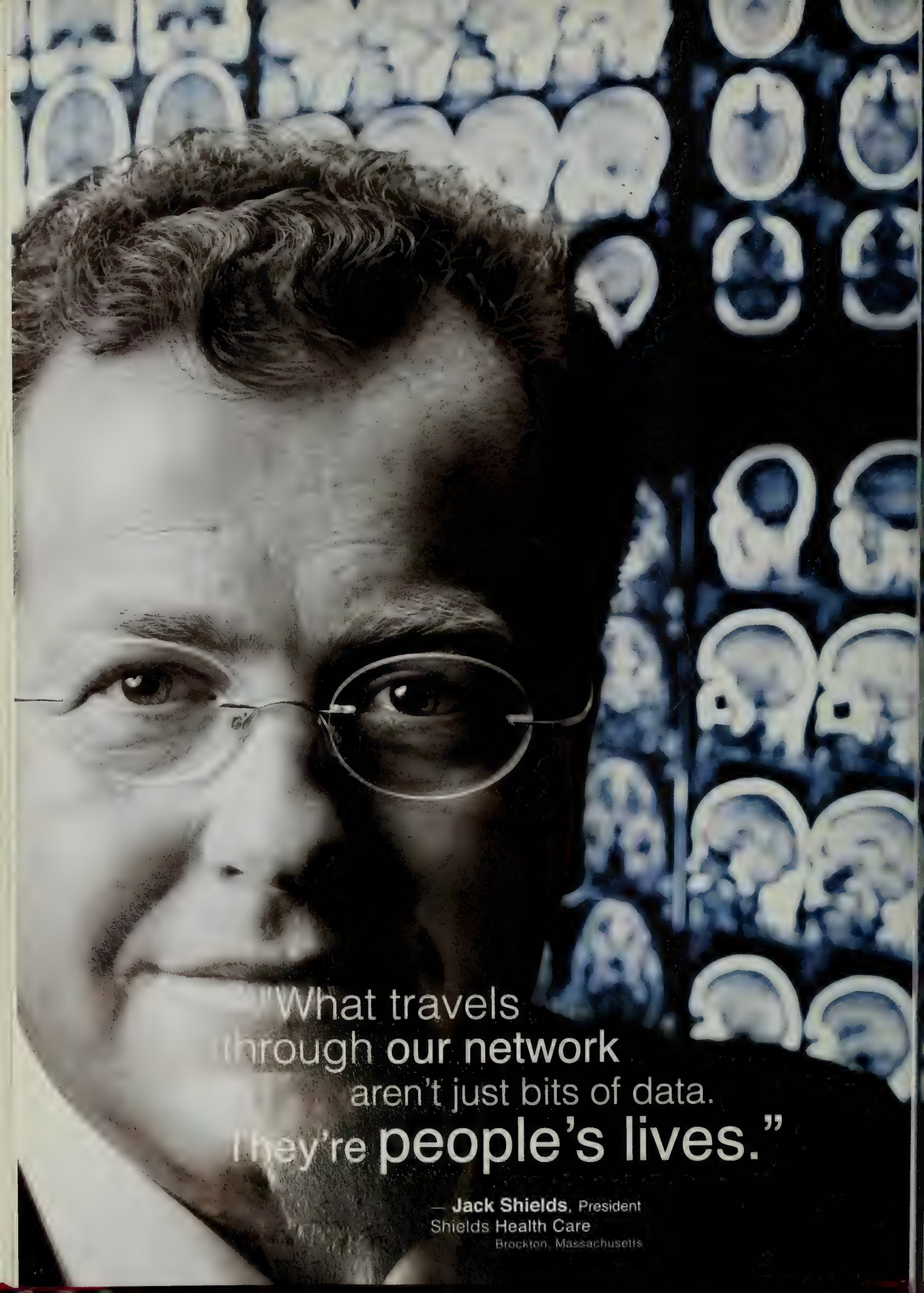

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OTHER COMMENTS

Courage is sustained ... by calling up anew the vision of the goal.

—A.G. SERTILLANGES, *The Intellectual Life*

Then and Now The real author of this war is not our president, but Winston Churchill. Sir Winston, as colonial secretary in 1921, convened the Cairo Conference that carved out the boundaries for three separate peoples: Kurds, Shiite and Sunni Muslims. He argued for a separate Kurdistan where the Kurds would be safe “from some future bully in Iraq” but was overruled by his own Foreign Office. If only we had listened to him then, but more importantly, for 10 years in the wilderness of the 1930s while he was without a cabinet post, Sir Winston railed at his own citizens and those of a complacent Europe and America who just wanted to get on with enjoying life and were deaf to the cries of the victims within and then without a newly resurgent expansionist and Nazi Germany. Then. If we only had listened then!

—ROBERT E. FREER JR., president, Free Enterprise Foundation, *Post and Courier* (Charleston, S.C.)

Second to None The French never boast of the superiority of their ways. They simply never bring them into comparison with other people's.

—JOSEPH WARREN BEACH

In Poor Health (Care) Washington politicians have made much of bus trips to Canada to buy cheap prescription drugs, but what about the buses loaded with sick Canadians going the other way? The government-funded Canadian health care system is self-destructing and leaving Canadians few options but to travel to the States for care and even for prescription drugs. In Canada, as in North Korea and Cuba, it is illegal to pay for care covered by the government system. So there are no alternatives apart from going outside the country.

There is a message here for U.S. politicians and patients who see Canada as a model for U.S. reform. Spending less money on

health care—9% of GDP in Canada vs. 14% in the U.S.—is possible, but don't expect high quality and equal access. It's all worth pointing out to proud Canadians who like to boast about their compassionate system, that without the U.S. market-based system providing a safety valve, a good number of their compatriots would go untreated.

—MERRILL MATTHEWS JR., Institute for Policy Innovation and director, Council for Affordable Health Insurance, *Wall Street Journal*

Bucked by a Buckeye George Voinovich of Ohio, one of the three Senate Republicans who bucked his own party on the tax vote, said that taxes should not be cut during a time of war. Nonsense. The best way to assure victory in this war against terrorism is to stoke the fires of America's powerful engine of economic growth so that it's running again on all cylinders. This is precisely the strategy that Reagan used to win the Cold War. We triumphed against the Soviet Union thanks to a combination of vast military and economic superiority. The goal of the terrorists is to disable the U.S. economy. Pro-growth tax cuts are a powerful defense mechanism to foil this strategy.

—STEPHEN MOORE, president, Club for Growth, *San Diego Union-Tribune*

Just the Facts “[President Bush] is already beginning to look a little weak, a little ragged. An apology would be unseemly and embarrassing for the nation.” So said Edward Briar of Military Research and Study Group when the American Nuclear crew was held by China in 2001, according to the Associated Press. Turns out, there's a problem with that nasty little quote. It's not that Edward Briar disputes it. It's that neither Briar nor his group actually exist. They were inventions of Christopher Newton, AP reporter. According to the *Washington Post*, for the two years AP has been running Newton's stories, which have cited more than 45 sources who lived only in his mind. Newton, who denies wrongdoing, has been fired. And from now on, says the Associated Press, editors will investigate to see if unfamiliar organizations are real. In other words, in the future they'll check the facts before going to print.

—Limbaugh Live

Back to Basics Question: I was taught by my father that it is not stylish to walk with your hands in your pockets. I needed confirmation, the army sure made it clear! More and more, I see men walking around with their hands thrust in their pockets. What is your opinion?

Answer: They are skulking. This will get you nowhere.

—GLENN O'BRIEN, “The Style Guy,” *GQ*



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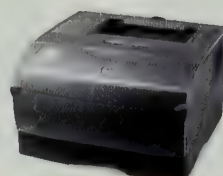
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Zoe yells at
everyone

Her vendors.
Her accountant.
The guy who
waters the plant.

But she never yells at
her package carrier.

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CURRENT EVENTS

by Ernesto Zedillo, FORMER PRESIDENT OF MEXICO
DIRECTOR, YALE CENTER FOR THE STUDY OF GLOBALIZATION



When Diplomacy Flunks

LAST OCTOBER, IN THIS SPACE, I EXPRESSED MY DISAGREEMENT with the unilateralist strategy the U.S. had been considering regarding Iraq. My view was that a persistent go-it-alone attitude by the American government would strain relations with numerous vital allies and friends, and that a more divided world could emerge. Sadly, despite significant effort, diplomacy has failed, unilateralism has prevailed over multilateralism and the world has entered its first major regional war of the 21st century badly damaged. Would the alternatives to war have been more effective in disarming Iraq and promoting stability, democracy and prosperity in the Middle East? On the night of Mar. 19 that critical question became academic. The decisions had been made. Now we must assess the damage and try to pick up the pieces. Today's question is: Where will this failure of diplomacy and the resulting war take us?

What Shouldn't Happen Next

It is my deep hope that this war not be prologue to a new international order in which the U.S. acts according to its own rules, unconstrained by the norms of the international community, awarding itself the right to set and enforce standards of international justice. I strongly suspect that an order based on such aggressive unipolarity, if at all possible, would not long survive. Sooner rather than later, even old friends acting alone, or perhaps in concert with old foes, would find a way to "balance" a unilateral Pax Americana.

Of course, this war should not be the start of a clash of civilizations, either. In the 21st century mature civilizations should not clash, they should interact with and benefit from one another. Nor should this war mark the beginning of the end of the multilateral system that has been evolving since the end of World War II. Many now say this system has failed. It remains to be seen what has failed, or who has failed whom. The solution is not to destroy the system but to transform it so it can take on the new challenges facing it. We must insist on this, not simply because the rest of the world would benefit, but because the U.S.' own security and prosperity depend on it to an extent that is by no means minor.

The world will safely navigate the unipolar waters that flow from the end of the Cold War only if the U.S., as the triumphant superpower, uses its unmatched military strength as a guarantor of global security exclusively as a last resort; only if it holds itself to acting within the international institutions it so painstakingly helped to create; only if it uses its influence to persuade, unite and lead in order to increase security and prosperity for itself and others.

Because the injury the present crisis has dealt the international system is great indeed, the system's reinvigoration is urgent—and

possible. Many of the central problems facing the U.S. and the world at large simply cannot be solved without international cooperation. Sheer military might is not sufficient; in fact, it's a rare problem that can truly be solved by isolated force alone. Consider, for example, what has recently become the biggest security concern of this and many other countries: transnational terrorism (as well as organized crime, its not-so-distant cousin). It would be dangerously naive to think that terrorism can effectively be fought in isolation. Can criminals with their international trafficking in drugs and weapons—and the money involved—be defeated if countries refuse to work together? Never. This is a fight without borders, and combating terrorism successfully requires the support of friends, allies and, sometimes, even adversaries. Global threats call for global responses.

Restoring the International System

It is imperative to restore some normalcy to the international system. This will not be easy given the acrimony of late, but diplomacy must be given a real chance. It would, of course, be unrealistic to think the community of nations could anytime soon come up with a totally new grand design of international relations based solely on multilateralism. It is, however, realistic to adopt a more gradual approach, one in which a constructive agenda of issues to be tackled is commonly agreed upon by major players.

Old allies must go back to the drawing board together; they must agree on what the most dangerous threats to international security are, and on what a common strategy might be to confront them—something that should have been done following 9/11. Mending the transatlantic rift must be a priority. A first, significant step toward that would be acceptance by the U.S. and the EU of a multilateral approach to Iraq's reconstruction. Also of utmost importance is working together to accomplish a fair and lasting peace in the Middle East. And, among many other pending tasks, it is vital the U.S. and the EU get serious about honoring the international commitments they made at Doha, Qatar in November 2001 (to cooperate in concluding an ambitious WTO round of trade liberalization) and at Monterrey, Mexico in March 2002 (to increase substantially their aid to poor countries). Finding common ground for the pursuit of the Millennium Development Goals, adopted in 2000 by the international community—to halve by 2015 the proportion of people suffering from extreme poverty in the world—would also do much to bring these crucial allies back together.

If all this sounds idealistic, if these efforts seem unattainable or unrealistic or too difficult, think long and hard about the alternative: much more of what we started to see the night of Mar. 19. **F**

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Ernesto Zedillo, director, Yale Center for the Study of Globalization, former president of Mexico; Lee Kuan Yew, senior minister of Singapore; and Paul Johnson, eminent British historian and author; in addition to *Forbes* Chairman Caspar W. Weinberger, rotate in writing this column. To see past *Current Events* columns, visit our Web site at www.forbes.com/currentevents.

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DIGITAL RULES

by Rich Karlgaard, PUBLISHER



The Big Cheap Chance

AT FRY'S ELECTRONICS, A CALIFORNIA STORE CHAIN, YOU CAN buy an elephant's memory's worth of disk space—a 120-gigabyte hard disk drive from IBM/Hitachi—for \$113. Welcome to the Cheap Revolution! The sum of this revolution is greater than its parts, as you'll see.

In the late 1990s, when servers with Intel chips dropped below 1 per mip (millions of instructions per second), buyers got more than a good deal. The world got—excuse my lame phrase—a paradigm shift. Within a few years IT departments got the idea they could replace the big servers they'd bought from brand-name Silicon Valley firms with cheapies from Dell, HP and IBM. Some IT buyers figured that as long as they were headed down this tobacco road, why not try Linux instead of Windows? E-Trade did just that a few months ago when it yanked 50 Unix servers that cost \$220,000 apiece and brought in a gaggle of \$4,000 IBM servers.

Disk drives now are screamingly cheap. Do today's storage leaders, such as EMC, a 1990s master of the universe, have any future competing against the rabble from Fry's, or will they go the way of Wang and DEC? The answer depends on how quickly the EMCs can realign themselves to the demands of the Cheap Revolution. EMC itself is too smart to be blindsided the way Wang was and is working like crazy to avoid such a fate. On the other hand, the most dangerous walk in business is on the tightrope between yesterday's cash cows and tomorrow's uncertainties.

Three Paths to Success

As Harvard Business School's Clayton Christensen told the crowd last month at the Third Annual Gilder/Forbes Storewidth

Conference, you can escape the Cheap Revolution's unrelenting margin pressure in only three ways:

- Improve your product offering faster than anybody else can. This tactic works, generally, only for market leaders with a good brand name, a greased distribution channel and financial might. (Think Intel.) And it works only as long as the market wants the added functionality and is willing to pay for it.
- Sell fast custom solutions that answer a customer's needs. Xilinx, with its programmable logic chips, does this. So does IBM, despite its size. IBM's trick has been to go modular and bring into its Big Blue tent an army of third-party solutions providers. The old, highly integrated IBM would never have been able to react quickly enough to customers' needs.
- Find an unserved market and serve it cheaply. This is the way of the disrupter, says Christensen. The product or service should be so cheap, in fact, that the industry's old guard thinks there's no money to be made and walks away. An example, says Christensen, is how Sony served teenagers with transistor radios in the 1950s. Their parents owned expensive tabletop vacuum-tube radios from RCA or Philco. For their part, RCA and Philco knew all about transistors. But they figured these solid-state curiosities would never replace vacuum tubes until they were capable of producing a superior sound. That left the teenagers unserved. Tinny-sounding as transistor radios were in 1955, they were—by the standard of no radio at all—good enough. By serving the unserved, Sony got a toehold in consumer electronics and never looked back.

Want to be a billionaire? Use the Cheap Revolution to deliver a cheap product to the unserved.

Mayor Daley's Goof

WITHOUT WARNING ON MAR. 31, AT 1:30 A.M., Chicago's Mayor Richard Daley sent in bulldozers to tear up the runways at Meigs Field, the city's shoreline airport. Daley cited security reasons, although his opposition to Meigs Field was well known and predated 9/11 by several years.

Apparently, Mayor Daley had a legal right to destroy Meigs Field. But what a shame! This little jewel of an airport was an asset to Chicago's business community. It would have become more so in the years ahead.

Daley evidently doesn't know that small "air limos" are the next wave in aviation.

Manufacturers such as Cessna, Eclipse Aviation and Adam Aircraft have announced four-seat-cabin jets designed to ferry



business travelers on point-to-point routes at a price comparable to a full-fare coach ticket. That's cheap. As one more piece of the Cheap Revolution, these pocket jets will cost between \$1 million and \$3 million new and will operate for less than 75 cents a mile. The jets will hit the market around 2006. In due course limo services will be up and running. My guess is that air limos will be a huge hit with business travelers. Wouldn't you prefer an air limo to the O'Hare schlep?

Meigs Field was the perfect airport to serve tomorrow's air limos. Unwisely, Chicago has surrendered a big asset. **F**



Visit Rich Karlgaard's home page at www.forbes.com/karlgaard or e-mail him at publisher@forbes.com.

MAKERS & BREAKERS

For more financial stats, go to www.forbes.com/makers.

Soft Spots in a Software Stock

WHEN A TECH COMPANY USED TO SPILLING RED INK suddenly turns profitable, Wall Street unrolls its red carpet. That's the case with **BEA SYSTEMS (10, BEAS)**, whose \$84 million in earnings for the fiscal year ended in January has levitated the stock from its \$5 low in October. (It peaked three years ago at \$86.) The analysts' consensus is that BEA's earnings will expand an average of 20% annually over the next few years.

That's a bit too optimistic. BEA established itself during the Internet boom by selling software that helps link corporate data to the Web; Amazon, for instance, uses it to let you search for books.

But now BEA is making a big push into integration software, which weaves together corporate clients' incompatible systems. And while integration is one of the few high-tech businesses that are growing, behemoth competitors like IBM and Oracle are muscling in and driving down prices. And upstart JBoss has been winning customers such as GetThere, a unit of travel group Sabre Holdings.



Cofounder Chuang suffers sales drops.

Result: For the first time since its 1995 founding BEA saw revenue drop last year, by 4% to \$934 million. Net cash from operations fell 14% to \$194 million from \$225 million. Licensing of its software to others dipped a worrisome 14%. Under cofounder Alfred Chuang, the chief executive, the company has beefed up maintenance contracts, which rose 28% last year. Trouble is, 90% of the maintenance customer base are renewers, but with sales flat it will be hard to squeeze growth from these contracts.

While the company has some good resources, including \$2 per share in cash, it's wise to short the stock now and cover at \$7.

—Michael K. Ozanian and Victoria Murphy

Behind the Mask

WORRIES ABOUT terrorist attacks and severe acute respiratory syndrome have boosted sales of protective gear. A prime beneficiary is **MINE SAFETY APPLIANCES (37,**



MSA), which makes little for miners anymore but is one of the top suppliers of gas masks and breathing devices to the U.S. military, law enforcement agencies and fire departments. And with SARS fears growing, the company is doing a brisk business in the N95 respirator masks recommended for blocking the virus by the Centers for Disease Control. Mine Safety has quadrupled production of these special masks.

Expanding its global reach, the company regularly makes small acquisitions, like last year's purchase of France's CGF Gallet, the leading European maker of firefighting and military helmets.

In 2002 Mine Safety saw sales rise 11% to \$564 million and earnings climb

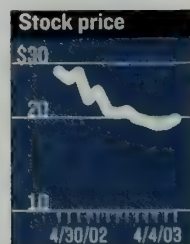
11% to \$35 million, largely on increased gas mask sales. At year-end 2002 it had a \$39 million backlog of government orders, up from \$27 million in 2001. The stock trades at just 13 times earnings.

—Christopher Helman

Rough Sailing

SINCE THERE'S NO RISING TIDE YET TO lift all boats, **BRUNSWICK CORP. (20, BC)** has had to struggle to sell its vessels. Among the world's biggest recreational boat-makers, Brunswick saw revenue sink in 2001 but make a 10% recovery last year to \$3.7 billion. Amid cost-cutting and the divesting of laggard businesses like fishing gear, restructuring charges pulled down earnings a tad in 2002, by 4% to \$78 million.

With the stock off from a \$30 high in 2002, Brunswick shares change hands at



17 times trailing earnings. A good buy says Merrill Lynch analyst Burke Koonce.

—Aliya Sternstein

Chip Shot

TELECOM ISN'T A HOWLING WASTELAND everywhere. **DSP GROUP (19, DSPG)**—maker of digital signal processing chips for cordless phones and hands-free car phone kits—boasts a 40% gain in 2002 revenue, to \$125 million, and a 10% gain in income from continuing operations to \$12.7 million. When a charge to spin off its licensing division is counted, DSP net fell 31% to \$15.1 million.

The stock seems overpriced at times trailing earnings, but the company is poised to grow and enjoy debt-free balance sheet, notes Wend Perkins, a portfolio manager for Johnson Family Funds.

—Daniel Kru





ings, A Study in Joy | NEVER FOLLOW



By Robert N. Stavins, DIRECTOR OF HARVARD UNIVERSITY'S ENVIRONMENTAL ECONOMICS PROGRAM
AT THE JOHN F. KENNEDY SCHOOL OF GOVERNMENT

Taking Fish to Market

Why not trade fishing rights the way business trades pollution credits?

A QUARTER OF THE WORLD'S FISHERIES ARE ON THE BRINK OF collapse because of overfishing. The conventional wisdom says government-mandated restrictions will bring back depleted stocks. But there's a more effective way to save the world's fish: enlightened use of markets.

There's no dispute about the cause of dwindling fish stocks. Most ocean fisheries are free to all comers, and fishing boats, whether run by small operators or large corporations, can take all they want. These individuals and companies are no more greedy than the rest of us, but because no one holds title to fish in the open ocean, everyone races to catch as much as possible.

The fisherman receives the full benefit of aggressive fishing (a larger catch) but does not pay all the cost (an imperiled fishery for everyone). One fisherman's choices have an effect on other fishermen, of this generation and the next. But in an open-access fishery, unlike a privately held copper mine, for example, this impact is not taken into account. It's a classic "tragedy of the commons." What is individually rational adds up to collective folly, and the shared resource is ruined.

The simple truth is that government intervention is required. Of course, fishermen don't welcome regulation in their economic sphere any more than the rest of us. And they have a point.

The conventional restrictive regulatory approaches have driven up costs. If the government limits the season, fishermen put out more boats. If the government limits net size, fishermen buy more costly equipment, like sonar. Economists call this overcapitalization. Costs go up for fishermen, but pressure on fish stocks is not relieved.

The answer is to adopt the same type of innovative policy that has been used for decades in the realm of pollution control: tradable permits. Sixteen countries, some with economies more dependent than ours on fishing, have successfully adopted such systems. New Zealand has had one in place since 1986; it has put a brake on overfishing, restored stocks to sus-

tainable levels and increased fishermen's profits.

There are several tradable quota systems already in operation in the U.S., including for Alaska's Pacific halibut and Virginia's striped-bass fisheries. The time is ripe for broader adoption of this innovative approach, because a shortsighted congressionally imposed ban on the establishment of new quota

systems has recently expired.

The first step in establishing a quota system is to determine the total allowable catch. The next crucial step is to allocate shares of that total limit to fishermen in individual quotas that are theirs and theirs alone (read: well-defined property rights).

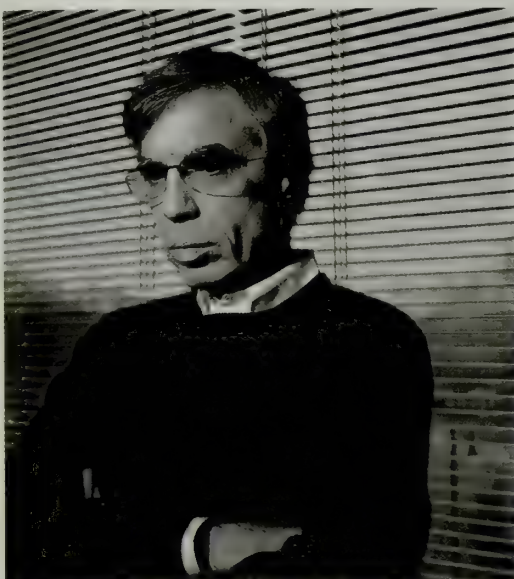
Allocation of the individual quotas should be guided by simple pragmatism. It's even possible to use the allocations to build support for the system. Making the quotas transferable eliminates overcapitalization and increases efficiency, because the least efficient fishing operations find it more profitable to sell their quotas than to exploit them through continued fishing.

In addition, these systems improve safety by reducing incentives for fishermen to go out (or

stay out) when weather conditions are dangerous. Tradable quotas also eliminate government's motivation for curtailing the length of the fishing season. Prior to the establishment of quotas for Alaskan halibut, for example, the government had reduced the fishing season to just two days. Subsequent to the introduction of the system, the season grew to more than 200 days. That means a longer season of fresh fish for consumers.

A decade ago environmental advocates, led by the market-based group Environmental Defense, played a central role in the adoption of the sulfur dioxide allowance-trading program that has cut acid rain by half and saved electricity generators and ratepayers nearly \$1 billion annually, compared with conventional approaches.

Now is the time for environmentalists to join forces with sensible voices in the fishing industry and in government to set up fish quotas that can keep fishermen in business while moving our fisheries onto a sustainable path.



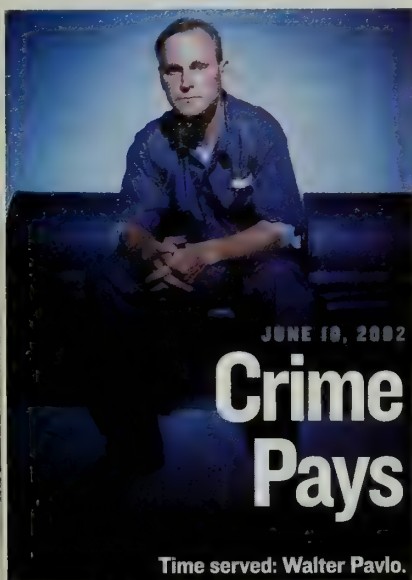
"The time is ripe for this, because a shortsighted congressional ban on the establishment of new quota systems has recently expired."



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FOLLOW-THROUGH



Crime Pays

Time served: Walter Pavlo.

LAST YEAR WALTER PAVLO gave FORBES a glimpse into a world of armed thugs, duffel bags stuffed with cash, and phony accounting at his former employer MCI. The onetime collections specialist was serving a 41-month sentence for money laundering and mail fraud. After reading the story, people want to hear Pavlo's tale of white-collar corruption firsthand—and are willing to pay for it. Pavlo, now out of the slammer, has given two speeches to the FBI at \$500 a pop plus expenses and

also has engagements at the Haas School of Business at the University of California, Berkeley, a Chicago Crime Commission seminar and the Southern Institute for Business & Professional Ethics. Pavlo also made a training video for the Association of Certified Fraud Examiners, which will fork over \$1,000 toward his restitution.

—Neil Weinberg

DECEMBER 30, 1996

Some Things Money Can't Buy

AFTER DROPPING HIS BRITISH LIBEL SUIT AGAINST FORBES IN March, Russian tycoon Boris Berezovsky shelled out an estimated \$400,000 for a series of newspaper advertisements making the point that he was not a murderer or a mafia boss. Two weeks later he was arrested by London police on charges of large-scale fraud brought by Russian prosecutors. (Berezovsky claims he is the victim of a political vendetta.) He was released on \$160,000 bail, but his request for political asylum in Britain was denied. He may want to get his Moscow lawyers ready: A London court has begun hearings on whether to extradite him to his homeland.

—Paul Klebnikov

APRIL 14, 2003

Car Wreck

IN OUR LAST ISSUE WE DETAILED HOW LARRY J. WINGET CUT lucrative deals between his Fraser, Mich.-based auto parts supplier, Venture Holdings, and the many other companies he controlled separately. Venture's bondholders and banks have apparently had enough. Shortly after our story ran, they insisted Winget step aside and let Joseph C. Day, the former chairman of Freudenberg-NOK, become Venture's new chief executive. Venture, which in 2001 had \$1.9 billion in sales, then filed for bankruptcy protection with estimated assets of \$721 million and debts of \$881 million. Winget remains Venture's chairman and sole shareholder, but he will need to cede at least some of that equity to get creditors to sign off on any reorganization plan.

—Nathan Vardi

JULY 8, 2002

Zapping the Zapper

SCORE ONE MORE FOR HOLLYWOOD AGAINST THE LITTLE GU now that Sonicblue, a Santa Clara, Calif. hardware maker, has filed for Chapter 11 and announced plans to sell off its ReplayTV commercial-zapping device. As we wrote last summer, companies like Viacom, Disney and NBC didn't like Sonicblue's zapper and had filed suit accusing the company of copyright violations. The litigation, which has been stayed because of the bankruptcy filing, cost Sonicblue as much as \$1 million a month, contributing to a loss last quarter of \$33.4 million on \$67 million in sales.

—Michael Freedman

Flashbacks

85 YEARS AGO IN FORBES/APRIL 20, 1918

The Power of the War Press

War exertions and war enthusiasm can be stirred by one thing, and by one thing only: war news. Our servants whom we have sent to the front have decreed, evidently without consulting our government, that we should be denied war news. A war for democracy, a war to compel public opinion in all diplomatic activities, cannot be successfully waged by secret. It is time Congress stopped this injurious nonsense.

60 YEARS AGO IN FORBES/APRIL 15, 1943

After the War

Who should represent the United States around the peace table? What program, what principles, should be formulated, insisted upon? America must accept international responsibilities, must cooperate in devising ways and means to insure world peace—but without compelling taxpayers to foot unconscionable international bills. Idealism untempered by realistic philanthropy unblended with practicality, would again bring world collapse.

25 YEARS AGO IN FORBES/FEBRUARY 6, 1978

Rummy at the Helm



Since last June Donald Rumsfeld, 44, the former defense secretary, NA ambassador and three-time Illinois congressman, has been president of Chicago-based drug and health-care firm, G. Searle & Co. Just before Christmas Rumsfeld decided the company must take the harsh medicine his predecessors have been so unwilling to prescribe. Last month Rumsfeld announced Searle would take massive writeoffs. "It's better to clear the decks," says Smith Barney's D. La

Smith. Maybe, but Don Rumsfeld isn't saying just how he will get rid of those unwanted businesses or how he plans to retrieve the late name as a maker of safe, effective drugs.



WASN'T LONG AGO THAT
CREATIVITY
IN THE SUPPLY CHAIN
MANAGEMENT
INDUSTRY
EANT MIXING TWO KINDS OF
LOWERS IN THE LOBBY VASE.

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WORLDWIDE

THE AXIS OF ANXIETY—the Iraqi war, terrorism and a shaky global recovery—is now joined by this lethal new virus creeping around the globe. Severe acute respiratory syndrome (SARS) emerged in China last November and has (as of Apr. 7) infected 2,600 and killed 98 in 19 countries. The death count is tiny alongside the 36,000 Americans killed each year by the flu, but SARS is just getting under way. Its ultimate risk isn't known.

Businesses are scrambling to limit their risk as quickly as public health experts race to contain and combat the illness. For now, China and Hong Kong are epicenters of the disease and face far more economic and social peril than the West. But if a second wave of outbreaks emerges and this time crashes hard into the U.S., it could wipe out our fragile economy and severely squeeze a public health system already struggling to cope with threats of biological and chemical terror. If SARS takes root in Africa, hitting populations where AIDS has already weakened immune systems, it could exact a devastating death toll and set back economic development for decades.

SARS caught the world up short. J.P.



Aftershock

Economic effects of the pneumonia epidemic are spreading almost as quickly as the disease. Are we ready to deal with this? BY MICHAEL MAIELLO



Masks do little to hide Hong Kong's anxiety, now spread around the world. Clockwise from left: Traders at the Hong Kong Stock Exchange; a SARS travel alert by a China Eastern airliner in L.A.; Dave Heel and Shane Gray hawk masks for \$7 apiece near the Vancouver airport; bargain hunters in Hong Kong; this McDonald's in Kuala Lumpur is empty of tourists.



organ had contingency plans in Hong Kong for almost everything—fires, earthquakes, acts of terror, bombings. But, says spokesman Peter McKillop, “we have never faced, or even seriously contemplated, the challenge of our own business being affected by an infectious disease.” The bank advised employees to work from home, while it ordered cleaning crews to scrub halls and elevators, and bought 10,000 hard-to-come-by surgical

masks for workers.

Over the long term the SARS outbreak will add friction to the cost of doing business in Asia, much as impromptu shoe checks, cargo inspections and travel jitters followed Sept. 11 in the U.S. Hotel business in Asia fell 25% from February to March. Intel told 75 Hong Kong workers to stay home for a week. Toyota postponed all business trips to Hong Kong and China's Guangdong province. Slack

demand forced Continental Airlines to end its nonstop service from Newark, N.J. to Hong Kong.

John Chen, the Hong Kong-born chief executive of software maker Sybase, has restricted all business travel to and from countries hit by SARS and has canceled product launches in Hong Kong, Taiwan, China and Singapore. “There will be negative economic impacts, for sure,” he says. He hastily adds, though: “The fundamentals of globalization are still there and kicking.” Fred Hu, an economist and managing director for Goldman Sachs in Hong Kong, is also sanguine. “The impact of this on our business would be modest if it is in place for only one to two months,” he says. “Geopolitical risks and the terrorist threat are a more tangible problem.”

In Toronto 129 suspected cases of SARS have crept up, most of them as a consequence of one visit by a Toronto resident to her relatives in March. The American Association for Cancer Research announced on Apr. 1 that its annual convention in Toronto would go on as planned. Hundreds of attendees called up insisting they wouldn't go. A day later, Toronto was off the schedule. Estimated cost to the provincial capital: \$15 million. Says association spokesman Warren Froelich, “If one physician went back with the virus it would be a disaster.” Now the association is scrambling to reschedule its conference and to see if its insurer will reimburse it for the \$6 million committed for the event.

What if travel jitters spread to the rest of the world? That consequence (at the moment, not very probable) would cut into the \$75 billion spent each year on flights to conventions and big-company meetings.

Martin Weiss, chief executive of the credit rating agency Weiss Ratings, believes that 27% of the HMO industry lacks sufficient assets to weather an epidemic. “The cause of bankruptcy or business failures is twofold: It's the internal weakness of the company and some external event that triggers the filing.”

SARS hastened the demise of Air Canada, which entered bankruptcy protection on April 2 with \$8 billion (U.S.) in debt, a daily cash burn of \$1.3 million

and just \$255 million in the bank. Its cross-Pacific routes, the carrier's most profitable, suffered 50% cancellation rates after SARS broke out, says Joseph D'Cruz, a business strategy professor at the University of Toronto.

Most experts are saying that SARS is highly unlikely to escalate into a pandemic like the Spanish flu, which killed 25 million worldwide between the summer of 1918 and early 1920. That fact and the fearsome political cost of an overreaction may make the government hesitant to order up drastic countermeasures on slim evidence, says Bryna Sanger, a professor of urban studies at New York City's New School University. In part motivated by the Spanish flu disaster, the U.S. government in 1976 embarked on a huge vaccination program when four soldiers at Fort Dix in New Jersey were diagnosed with the virulent swine flu. The Ford administration decided that 200 million Americans should get the shots and spent \$460 million (in today's dollars) on that target. President Ford and the first family took their flu shots on television. But by the seventh week of the vaccination program 1,000 recipients of the vaccine had developed limb paralysis. The program was abandoned soon after and a swine flu epidemic never materialized.

Is it possible that that sour experience harmed the nation's preparedness? Less than 5% of all health dollars in the U.S. go to public health infrastructure. Though \$4.3 billion has been earmarked for preparation for bioterrorism, the bulk of it has gone toward biotech research and stockpiling smallpox vaccines, not to bolster epidemiologist teams doing fieldwork and training. "We've ne-

glected public health systems financially, from a policy point of view and a legal point of view, for decades," says Lawrence Gostin, professor of law and public health at Georgetown University and Johns Hopkins University.

Doctors in Maine, for example, can't order a quarantine without approval from the governor or the courts. On Apr. 2 President Bush helped clear the way by signing an order granting health officials the power to quarantine patients with SARS, adding it to a list of killers such as smallpox, cholera and Ebola.

New York City has only seven suspected SARS cases, but an outbreak here would severely tax a tight budget. The minimum cost of quarantining 50 people in a Manhattan hospital for two weeks is about \$700,000, estimates Robert Goldberg, an urban planner at the Manhattan Institute. Add to that the \$50,000 per patient it would cost to treat a case of pneumonia, according to Goldman Sachs economist William Dudley. Total: \$3.2 million per hospital with 50 patients.

He speculates that patients and their insurers will balk at paying the bill for any quarantines. That would mean that New York City would have to apply for federal disaster funds as soon as an outbreak occurred. New York's shipping ports and airports might also be subject to closures or delay, crimping the national economy.

Today in Hong Kong, a cough on a street corner is enough to scatter a crowd. Eventually those may be the coughs heard round the world. **F**

Additional reporting by Robyn Meredith and Russell Flannery.



TOP TO BOTTOM: CDC / GETTY IMAGES, J.P. MOCZULSKI / CP PHOTO, BRIAN MARCUS FOR FORBES (2)

KEEPING BUGS AT BAY

Surgical masks have quickly become the must-have accessory for the SARS-obsessed. And the inevitable gouging has begun.

The Canadian government is try-

ing to buy 8 million N95 masks, the gold standard of protection, for Toronto hospitals. Gerald Yaffe, president of Kit Care, is

helping to fill the government order but has had to pay wholesalers as much as \$3.75 for a mask that normally goes for \$1.75 or less. Home Depot's nine stores in Toronto have already sold out. A couple of roadside entrepreneurs in Vancouver claim to have sold

dozens of simple surgical masks for \$7 apiece.

Makers of N95 masks, such as 3M, Moldex and Gerson, have more than tripled production to 12 million masks per week since the outbreak. Gerson is adding capacity at factories in Middleboro, Mass. and Mexico City.



Stopping the Killer Virus

Behind the race to contain the Asian pneumonia.

BY ROBERT LANGRETH AND EMILY LAMBERT



The suspect coronavirus; Nurses at Toronto General Hospital undergo daily scrutiny for SARS.

IT SPREADS RAPIDLY, LIKE THE COMMON COLD. IT HAS KILLED 4% of its known victims, striking down not just the elderly and infirm but also (occasionally) healthy adults. It is so new that no one is immune. And there are no proven drugs for it.

Severe acute respiratory syndrome is a nightmare mix of virulence and contagiousness. After simmering late last fall in Guangdong, China, the viral disease exploded in Hong Kong and then spread rapidly to Vietnam, Singapore, Canada, the U.S. and 14 other countries.

"Some viruses like Ebola kill people but don't spread easily. Others spread readily but don't kill," says Anthony Fauci, director of the National Institute of Allergy & Infectious Diseases. "This is extremely virulent, and it spreads easily. It's a really bad combination."

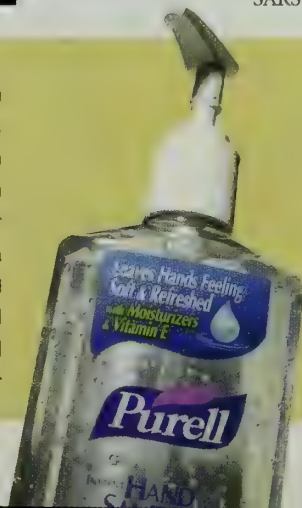
The SARS outbreak is a stark reminder that for all our worry about terrorists unleashing man-made germs, nature's own weapons factory is the biggest threat of all. A few decades ago the medical establishment naively figured that it could conquer infection with modern antibiotics and vaccines. Fat chance. Microbes are constantly mutating and evolving into new and deadly forms. Every few decades nature concocts a major new killer. HIV was one of the last big ones. Only time will tell whether SARS is anywhere near as threatening, but no one is ruling out the terrifying possibility.

"This is behaving in a way you might expect the next influenza pandemic to begin. It is beyond one geographic region and has been spreading rapidly," says James Hughes, who heads the Center for Infectious Diseases at the federal Centers for Disease Control & Prevention. His agency has assigned 250 scientists and statisticians to track and contain the epidemic, determine how it spreads, devise a definitive diagnostic test and identify its origins. Even if they can check the outbreak, he adds, "I suspect this virus is here to stay."

SARS is so new that almost everything about

Though it looks like a modest dust mask, the N95 is a triumph of materials science. It consists of a mesh of polypropylene (the stuff used to make Astroturf) sandwiched between layers of nonwoven polyester. The N95 blocks 95% of particles bigger than 0.3 microns, or one-three-hun-

dredth the width of a human hair. The suspect behind SARS, a coronavirus, is smaller than that but comes encased in water droplets that get caught outside the mask. Only buy a mask stamped "NIOSH" and "N95." Also, keep on hand some viricidal alcohol-based hand lotion like Purell or



Isagel. A pint of rubbing alcohol will do the trick, too. You can get disposable latex gloves at \$5 for a dozen pair. A hospital isolation ward would do much better—with gown and goggles—but that's a bit much for riding the bus to work.

—Christopher Helman

it remains shrouded in uncertainty. The disease starts with an achy fever that won't go away, followed after a few days by a dry cough, pneumonia and shortness of breath. About 90% of people recover on their own. But in about 10% of cases, lung inflammation becomes so severe that a respirator is needed for breathing. About a third of these patients die from massive respiratory failure.

The biggest unknown is how far and how fast it will spread. There are three basic possibilities. The worst-case scenario is that the virus spreads like wildfire to more and more countries until it becomes a full-blown global epidemic, or pandemic. The SARS virus doesn't appear to spread as fast as influenza. If it did, we'd have hundreds of thousands of cases by now. Still, a killer bug that merely spreads as fast as a cold is horrifying enough.

The best-case scenario is that the vigorous efforts to contain the virus succeed and it quickly burns itself out in a few weeks or months. Already, World Health Organization officials say, Vietnam and Singapore appear to be getting the epidemic under control through quarantines and meticulous hospital sanitation. The U.S. case count (under an expansive definition that includes some uncertain cases) more than doubled between Mar. 31 and Apr. 7, but almost all of these are people who traveled to Asia. Only a handful are secondary cases originating in the U.S. from contact with these travelers. And so far no one has died here.

The optimistic outcome, though, is unlikely. It is next to impossible to eliminate a disease without a vaccine. That's why tuberculosis, AIDS and malaria are still scourges of mankind.

The most likely result is somewhere between these two

Epidemic Proportions

SARS cases and deaths continue to rise, mostly in China and Hong Kong, but quarantine is slowing its spread.



thought it would happen in my lifetime, he says.

Another possibility: All SARS cases, or all the life-threatening cases, represent dual infection with coronavirus and something else, such as a novel metapneumovirus. Metapneumovirus has been found in some victims.

One mystery is how the virus is transmitted. The weight of the evidence so far suggests that it spreads in a way similar to colds, either through the coughing up of large droplets or through direct contact with patients or objects the patient just touched and contaminated. Less likely but much more alarming is the possibility that the virus, like a fine aerosol mist, lingers in the air long after a sick person has coughed and gone. Influenza and tuberculosis spread this way, making it next to impossible to stop the chain of transmission.

Another mystery is why the disease has spread efficiently in some locales, like

Toronto, but not much at all in the U.S., despite a number of apparent cases among returning travelers. One hypothesis is that some people may be "supershedders" who spread huge amounts of viral particles. Or it may simply be that the original victims in Hong Kong, Toronto and elsewhere didn't arrive at the hospital until too late (if at all) and thus were able to spread it to the highest number of people when the disease was at its most infectious.

A race is now on to develop diagnostic tests for the syndrome, which has so far been diagnosed by excluding other possibilities. The CDC has developed two prototype antibody-based diagnostic tests and is rushing to validate them. The CDC scientists have been working around the clock to sequence the genome of the suspect coronavirus, and results are expected any

"This was always possible, but I never thought it would happen in my lifetime."

extremes: The disease stops short of global pandemic but remains a smoldering threat—perhaps in rural China, perhaps in Africa, perhaps throughout the globe—until we are able to finally develop a cheap and effective vaccine, much like the ones for measles and the flu. But that could easily take eight to ten years.

The prime suspect behind the disease is a new type of coronavirus that comes from a well-known family of viruses responsible for up to 30% of cases of the common cold, as well as various animal diseases. This strain appears to have genetic similarities to human, cow and bird coronaviruses, according to gene chip studies done at the University of California, San Francisco. Coronaviruses are particularly good at grabbing and blending genetic material from other species, says University of Southern California coronavirus researcher Michael Lai. "We've always said [such a virulent strain] was a possibility, but I never

day now. The sequence could underpin a more definitive test for the virus; Roche Diagnostics hopes to have one on the market within a couple months after the sequence is ready.

Peter Jahrling, a virologist at the U.S. Army Medical Research Institute of Infectious Diseases, has just begun testing isolates of the coronavirus against 2,000 approved drug compounds to see if any of them kill or disrupt the virus. "We're going to cranking these out at several hundred a day," he says. One of the first tests is to determine if the broad-spectrum antiviral ribavirin, now used for viral hepatitis, is useful. Separate ViroPharma of Exton, Penn. says it plans to screen its entire 400,000-compound collection against the new coronavirus.

Dr. Fauci of the NIH has already convened a crash project to craft a dead version of the coronavirus that would stimulate an immune response. But, he says, "no matter how much I turn on the afterburners, I won't have a vaccine ready for next winter."

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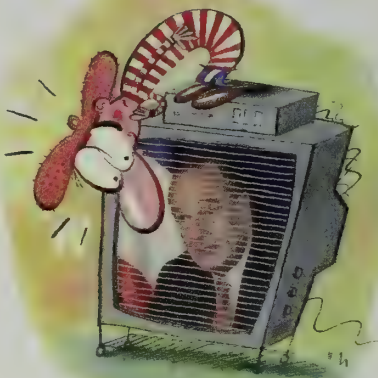
What Gaul!

France's president is prepared to launch a \$100 million news cable channel to counter *la vue américaine* | BY TOMAS KELLNER

IT TURNS OUT THAT FRENCH PRESIDENT Jacques Chirac does have a battle plan. Late last month he called for a 24-hour news channel, dubbed "CNN à la française," that will push the French point of view on world events. The aim is to correct the bias in U.S. media with "independent and balanced" coverage, explains Martin Even, audiovisual attaché at the French embassy in New York.

The project had been on Chirac's list of reelection promises in 2002, but sank to the bottom of his agenda. The contretemps with George W. Bush seems to have resurrected it.

Hélas, the real fight lies at home. Although the idea has been around since 1989, it has gone nowhere because France's myriad state-run broadcasters could never agree on funding and ownership. Chirac's revolutionary solution: Engage the private sector.



The front-runner is LCI, a cable news channel owned by \$2.7 billion (sales) Télévision Française 1. Never mind that TF1 has \$500 million in debt; the government may pony up as much as \$100 million to create the channel. The other major contender is state-owned Radio France Internationale (RFI President Jean-Paul Cluzel says there's room for a player whose point of view lies somewhere between CNN and Al Jazeera).

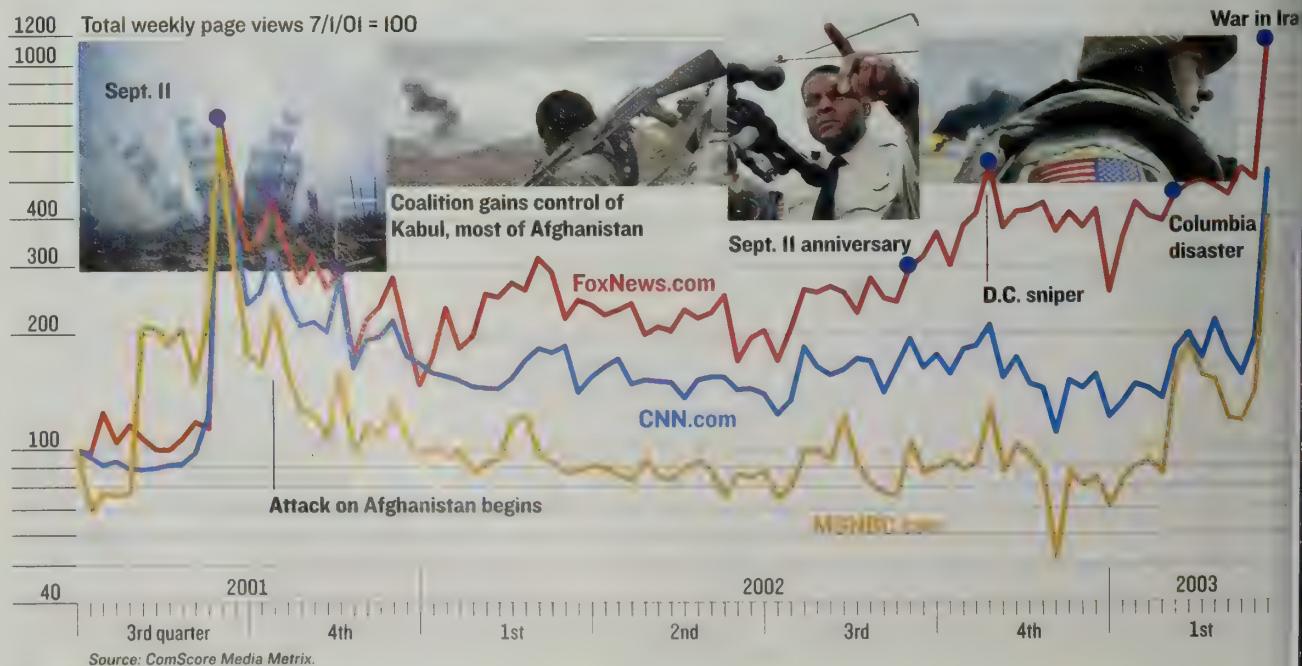
The idea is to set up a network of foreign news bureaus, much like that of the BBC World Service and CNN, and broadcast throughout the Middle East and Africa where the vast French colonial empire once held sway. Oh, yeah, and in the U.S. too, via American cable and satellite companies. "If you're not seen in Washington and New York, you may as well not exist," says Even.

Expected launch date: fall 2004. Much too late to cover the Battle of Baghdad. But still time, perhaps, to roll out a documentary about the long, cozy relationship between Chirac and Saddam Hussein.

BAD NEWS IS GOOD NEWS

Terrorism. War. Human tragedy. They're all a boon to Internet news sites—in the short term. Net news execs like to pitch the idea that a lot of the new patrons will stick around, driving up traffic and ad sales. But the bad news for their media sites is that no major event since the Sept. 11 attacks has translated into big lasting gains. The Iraq war may be the best news that the sites have had in a while.

—Neil Weinberg





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Peace Train

Amtrak's unpopularity may be its best defense against terrorism | BY CHANA R. SCHOENBERGER

THE THIRD-DEGREE SECURITY CHECKS NOW reassuring commercial air travelers since Sept. 11 are nowhere to be found at Amtrak. The national passenger rail service offers monastic calm. No long lines and you don't have to take your shoes off. Checked luggage is randomly screened, but rarely do agents ask for your driver's license.

So what's to stop a terrorist from boarding a train in New York's Pennsylvania Station, stowing a bomb-laden duffel bag in the overhead racks, ambling innocently down the car's aisle, and ducking off before it leaves for Washington? Conductors don't check tickets until the train leaves the station, and might not notice the orphaned bag until it's too late. "In terms of screening everyone when they board, that would be logistically challenging," says Amtrak spokesman Daniel Stessel.

Paradoxically, Amtrak's best defense against terrorism may be its unpopularity. Baddies like big bangs and lots of fatalities. Amtrak's ridership is at 40% of capacity, and flat since 2001 at 23 million passengers a year. A terrorist attack on a passenger train would scare people away from Amtrak, but wouldn't cause a major disaster, says Ronald Utt, a senior research fellow at the Heritage Foundation think tank in Washington. "Of all the things you can use as a weapon, Amtrak is the least effective."

A bomb would have to be expertly placed to blow up a bridge. Ditto with tunnels. Amtrak's six concrete-and-steel

tunnels into Manhattan, which date back to the turn of the 20th century, would be difficult to rupture with an explosion on a moving train. But smoke and fire are potential problems, says transportation safety consultant Kenneth Korach, president of Philadelphia-based Transportation Resources Associates. Hijackings aren't considered a serious threat: a remote command center controls the train's movements and terrorists can't divert a train as easily as they can an airplane.

Conventional or chemical bombs could cause serious damage, however, if a train were in a crowded station that combined Amtrak and subway lines, like Penn Station or Washing-

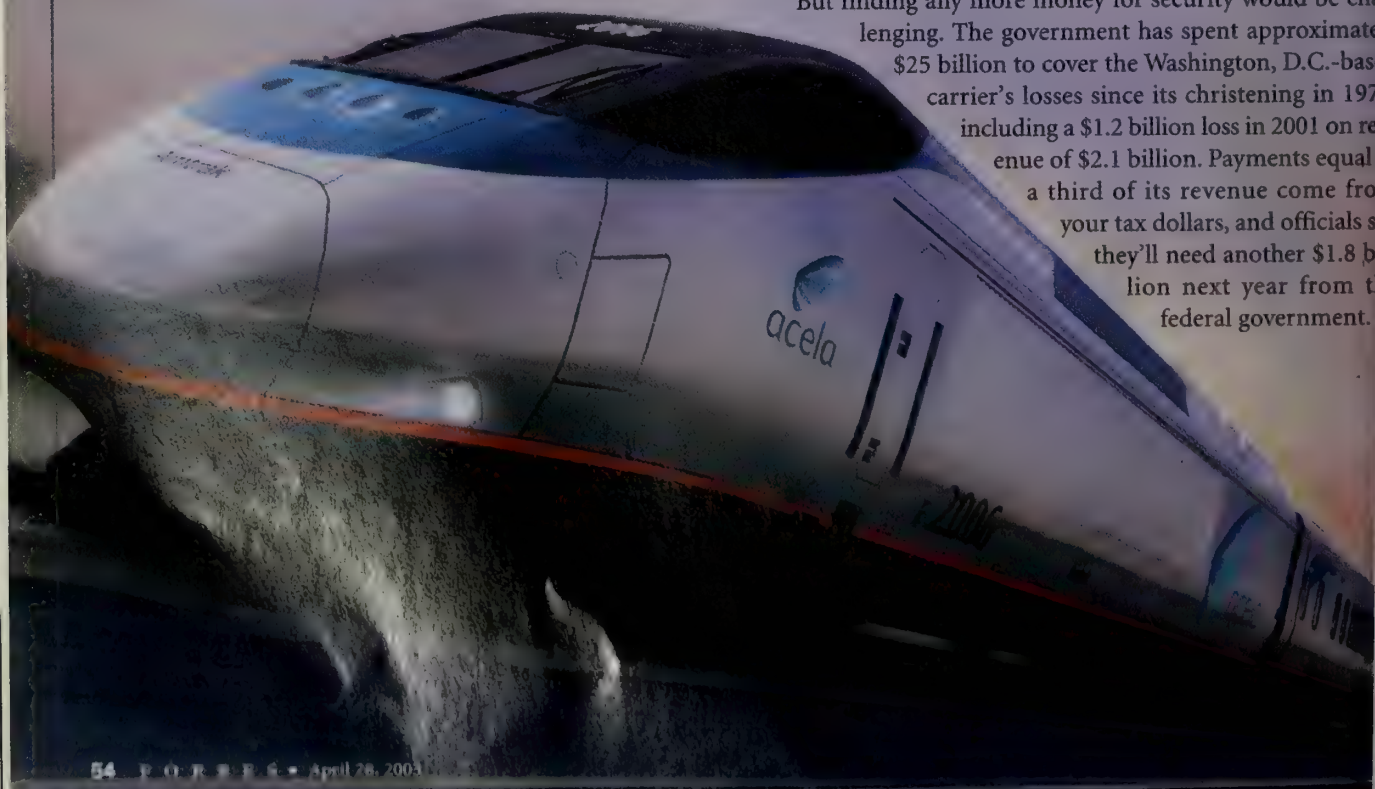
ton's Union Station, Amtrak's third-busiest station, located just blocks from the Capitol. But security experts note that while packed subways have been terrorist targets in France and Japan, intercity trains have not.

Although its precautions are often invisible to travelers, Amtrak has been beefing up its security. Its 300-plus police force has gone from 8-hour to 12-hour shifts, increasing armed officers on patrol

"Screening everyone when they board would be logistically challenging."

by up to 50%. They randomly sweep trains and stations with dogs and ride the rails both in uniform and in plainclothes. Conductors and other employees have also gone through training to spot anomalies such as shifty-eyed passengers. The company also is continuing camera surveillance of its bridges and tunnels, in conjunction with the freight railroads that own 97%

of the track mileage. But finding any more money for security would be challenging. The government has spent approximately \$25 billion to cover the Washington, D.C.-based carrier's losses since its christening in 1971, including a \$1.2 billion loss in 2001 on revenue of \$2.1 billion. Payments equal a third of its revenue come from your tax dollars, and officials say they'll need another \$1.8 billion next year from the federal government.



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Limited Viewing

"SEND IT BACK!" THAT'S A COMPLAINT YOU sometimes hear at a restaurant. But in a portrait studio?

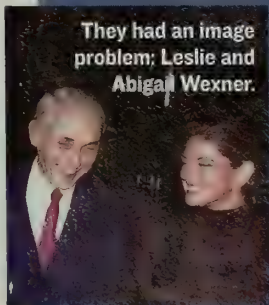
Limited Brands Chairman (and billionaire) Leslie Wexner has redefined etiquette. After viewing a 6-by-6-foot oil painting of himself, his wife, Abigail, and their four young children, an apparently horrified Wexner returned it to the artist, Nelson Shanks. Wexner's lawyer alleges that Shanks "created an inherently impersonal, inaccurate and disturbing painting."

Shanks, 65, is no color-by-numbers hack. He has done portraits of Ronald Reagan, Bill Clinton, Princess Di, Margaret Thatcher and Pope John Paul II. "This has never happened before," he laments. Shanks spent two days at the Wexners' 60,000-square-foot Georgian mansion in New Albany, Ohio, where he took 300 photographs as a basis for the painting. The family, he says, declined offers to view the portrait before it was completed.

In any event, Shanks is suing the Wexners in U.S. District Court in eastern

Pennsylvania for breach of contract, seeking \$339,900, including the costs of framing and shipping. Codefendants are New York money manager

They had an image problem: Leslie and Abigail Wexner.



Jeffrey Epstein, who originally intended the painting as a gift to the Wexners, and New York socialite Ghislaine Maxwell, daughter of late British media magnate Robert Maxwell, who put artist and subjects together. A judge recently threw out a motion to have the case dismissed.

Which means Shanks may get a second shot—as a courtroom sketch artist.

—Mark Tatge



Pick Me! Pick Me!

Detroit automakers, desperate to shape a new labor pact, are cozying up to the United Auto Workers | BY JOANN MULLER

WITH AUTO LABOR NEGOTIATIONS a few months away, it's suddenly make-nice-with-the-union time in Detroit. DaimlerChrysler, for instance, has eased the way for the United Auto Workers to organize 3,100 workers at two of its Freightliner commercial truck factories in North Carolina. And it vowed to remain neutral if workers at other planned DaimlerChrysler factories want to join the union.

General Motors and Ford are also trying to score brownie points. In January GM Chief Executive G. Richard Wagoner invited UAW President Ronald Gettelfinger for a personal tour of the Detroit auto show. And Ford chief William Clay Ford Jr. inserted into his negotiating lineup an executive whom Gettelfinger is said to trust.

Why the air-kissing? It's merely a prelude to what promises to be tough contract talks. The existing contract expires in September, and negotiations will begin in July. As always, the UAW gets to pick which of the Big Three it will negotiate with first.

Then it takes the contract to the others, who are expected to match the pattern. Each of the companies is anxious to be the union's choice so it can shape the contract—and maybe gore competitors in the process. That's more crucial than ever this year. Each automaker has wildly divergent problems that it would like to address at contract time.

GM, whose retirees outnumber active employees by nearly 3-to-1, needs relief on soaring pension and health care costs. Ford, limping through a turnaround effort, needs to close factories and shed excess hourly workers. Chrysler, with too many of its own parts plants, wants to outsource more work to lower-paying suppliers.

With such different priorities, the lead bargainer could inflict headaches on its U.S. competitors. For instance, Ford and Chrysler, which have fewer retirees to support, might agree to generous pension increases that they know would be costly for GM to absorb. Likewise GM

might agree to limits on job cuts because these would hamper Ford's recovery.

This strategy can backfire, however. In 1999 Chrysler set the pattern and agreed to strict limits on the sale or closure of factories. Most analysts assumed the language would hurt Ford's plan to spin off its Vecon auto parts subsidiary. Instead it complicated Chrysler's own restructuring as its finances collapsed the following year.

Whom will the union choose? Prudential Securities analyst Michael Bruynesteel thinks Chrysler has the best shot. Reason: The UAW will concede job reductions at Big Three if it can offset them with more union jobs at supplier factories. That dovetails with Chrysler's game plan.

The biggest plum that DaimlerChrysler could offer is allowing the UAW to try to organize its Mercedes factory in Alabama, a tantalizing prospect that's being tossed around Detroit, but insiders at Chrysler suggest it's too valuable a jewel to concede. There's only so much a friend can do.

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Marques Man

The FBI has its hands full nabbing the nastier crooks. So watch counterfeiters are nailed by private eyes like **GEORGE ARNOLD** | BY BRETT NELSON

FOR TWO YEARS PRIVATE EYE GEORGE ARNOLD KEPT hearing about a guy named "Sam" in New York who was selling counterfeit watches. Arnold, hired by Switzerland-based Richemont, owner of Cartier, went undercover. Posing as a dealer, he gained Sam's trust by making buys over the phone and often swinging by his booth in the city's Chinatown section just to shake hands.

The investigation peaked last fall when Richemont got a judge's approval to raid Sam's shop and nearby warehouse in what's known as a civil seizure. It was a jackpot. Arnold, accompanied by lawyers and police escorts, seized 134,000 watches, watchbands and Cartier trademark logos. More significant, they found thousands of documents, including wire transfers, that Richemont says reveal a large ring run from Hong Kong exporting between 100,000 and 300,000 watches a month—mostly replicas of \$3,500 Cartiers—that would fetch from \$10 on the street to \$400 on the Internet. Crows Harley Lewin, counsel for Richemont: "This is one of the biggest counterfeit luxury goods cases in 20 years."

Maybe so, but what happened next shows why these busts are akin to a finger in the dike. Two months after the raid the ring was back in operation, having shipped 13,000 more fake watches to America, according to a judge's ruling in a contempt hearing in

early April. Meanwhile, Cartier's civil suit is pending. And U.S. authorities have yet to begin a criminal investigation. "The hardest part is not catching the bad guys," says Arnold, "but getting the good guys to do their job."

But the good guys—U.S. Customs officers, FBI agents and U.S. attorneys who investigate criminal cases—are watching out for terrorists and are stretched a bit thin. Then there's the notion tax dollars should be spent on violent criminals like drug dealers; corporations, armed with civil action, can take care of themselves. "They get hoisted on their own petard," says Bart Schwartz, former chief of the criminal division in the U.S. Attorney's Office in New York. Laments Cartier President Stanislas de Quercize: "We should be able to send a stronger signal."

To protect their brands, big companies like Richemont and Rolex spend \$2 million to \$4 million annually to train police, lobby for tougher statutes—and hire guys like Arnold, 53. A cross between Sam Spade and a healthier-looking Keith Richards, Arnold has been chasing crooks for 30 years, first as a drug agent and later as antitheft chief for two retail chains. In 1995 he opened his own business, now in Shelby, N.C., with four detectives, each billed at \$90 an hour. Arnold admits to keeping four aliases, called "pretexts," in undisclosed locations. Last December he roused a knockoff New Balance gym shoe maker in China.

As for "Sam," Arnold says he saw him hanging out in Chinatown in February. The judge at the contempt hearing slapped a \$4.8 million judgment on the ring and earlier froze assets of about \$200,000—about all Cartier is likely to recover. (Joseph Milano, lawyer for Billion Fortune, a shipping company near Sam's shop where the watches were found, says Cartier has not proven his client shipped fake watches.) The suppliers in Hong Kong? Arnold's sources tell him they fled into Mainland China—probably to set up new operations. **F**

Tricky Dicks

To bust a counterfeiter, investigators have to use a bit of fakery themselves. Here are three tricks those in the field were willing to share.

BLUSTER

When once pressed for identification by a crook, Holmes Hi-Tech's Robert Holmes began slapping \$100 bills on the counter, shouting: "There my &%#!@&?@#! driver's license, insurance card and Social Security card!" The shaken counterfeiter brought out his best fake watches, which Holmes later seized.

DISGUISE

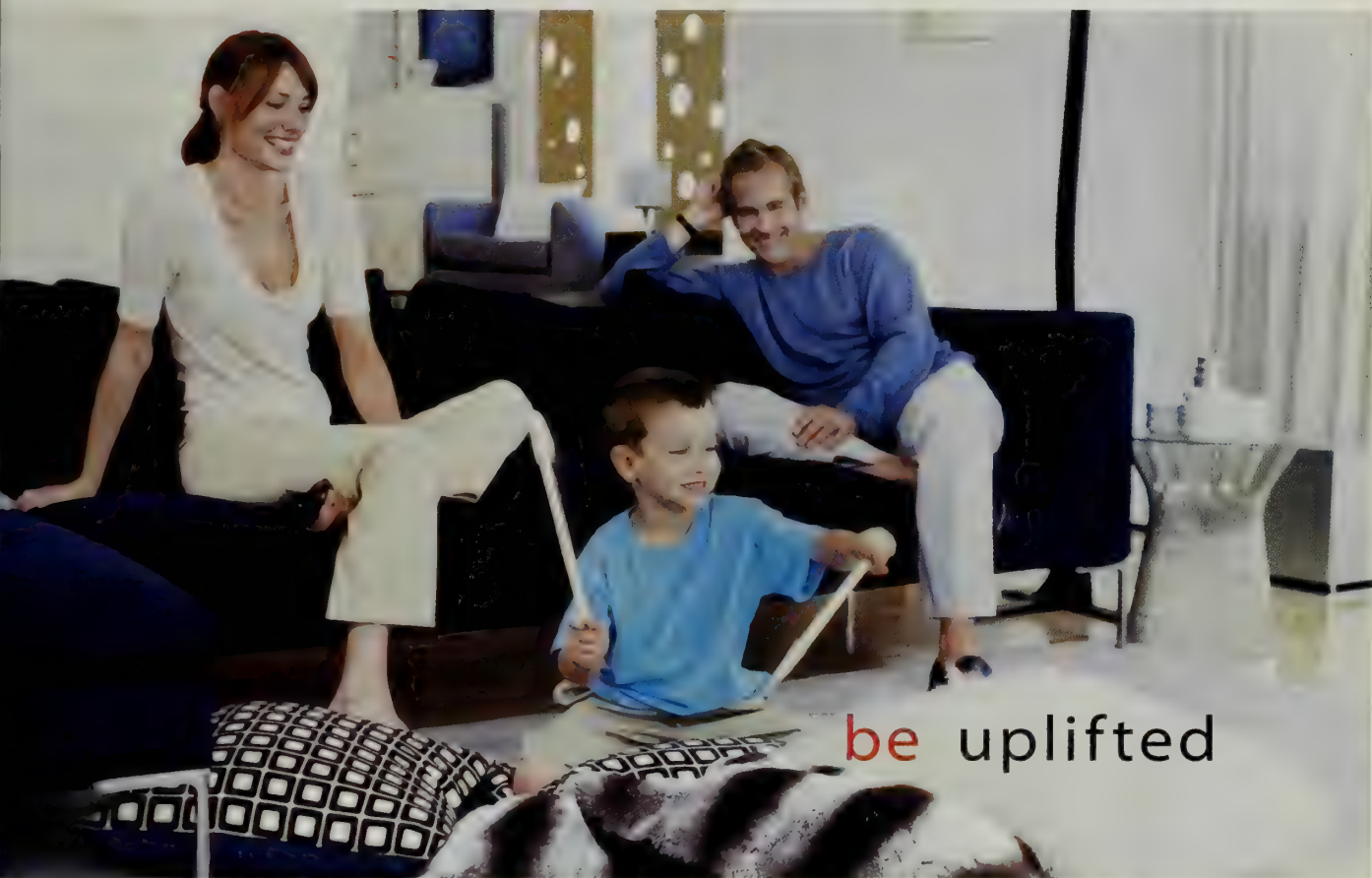
An investigator with Monty Drake & Associates donned Salvation Army duds, poured beer on himself and lived in a dumpster near a counterfeit T-shirt plant for a month. He asked workers if he could sweep up for pocket change. Once inside, he used a video camera to take evidence.

AGENTS

To enter a fake hip-hop clothing factory, Kris Buckner of Investigative Consultants enlisted "Sal," at 5 foot 4, and "Mao," at 6 foot 6 and 340 pounds. Sal worked up sweat, then pounded on the plant door begging to hide from the monstrous killer. He got in and cased the joint, which led to five arrests. —B

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Czechmate in Prague:
Ronald Lauder.

Call It the Ronald Lauder Tax

The International Arbitration Tribunal in London has ordered the Czech Republic to pay \$353 million to Forbes 400 member Ronald Lauder and his Central European Media Enterprises. The panel essentially upheld the cosmetics heir's claim that the government wrongly allowed his Czech partner, Vladimir Zelezny, to grab a valuable television broadcast license. Hoping to join the European Union in 2004, the Czechs likely will have to cough up the cash—even though the award equals the country's entire health care budget. Proposals include floating bonds and raising the value-added tax by 40%. —*Tomas Kellner*

Burn, Then Churn, Then Learn

Netflix, the high-flying online DVD-rental service now up to 1 million-plus subscribers and a \$19 stock price, has come under fire from disgruntled customers. Some complain DVDs returned in the firm's signature red envelopes simply disappeared in the mail and that Netflix (of Los Gatos, Calif.) froze their accounts. The

postal return system gives a big competitive edge over Blockbuster—if it works. Netflix now acknowledges that since-fired workers at its Queens, N.Y. distribution center were stealing DVDs. Still, Netflix says customer churn—people who leave—dropped 13% in the last quarter, to 6.3%. —*Chana R. Schoenberger*

Short-Sellers, Pay Attention!

Wall Street types are puzzled over the recent hiring by Carlyle Group, the hot, well-connected Washington, D.C. private equity firm, of Daniel Akerson. He led XO Communications into a spectacular bankruptcy that vaporized the entire \$1.5 billion investment of buyout artist Forstmann Little, which had put him in the job. Akerson, 54, defends his record. In a press release Carlyle, which has assets of \$13.9 billion and whose ranks include retired IBM head Louis Gerstner and ex-British Prime Minister John Major, lauded Akerson's "proven ability." —*Phyllis Berman*

Shorts, Read This, Too!

The statement that troubled EDS issued last month about the chief executive hiring of Michael H. Jordan, 66, noted he ran CBS from 1993 to 1998. Not mentioned by the Dallas-based tech firm: Jordan's later stint as chairman and director of Luminant Worldwide Services. That Internet consultancy, also in Dallas, raised \$89 million in a 1999 public offering, reached \$700 million in market value—and went bankrupt in 2001, wiping out shareholders. "We wanted to stick to the high points," EDS says. —*Katarzyna Moren*

Here's a Better Name: La Weasel

In March 2002 La Madeleine, a Dallas-based chain of French-style cafes, issued a press release stating it had been acquired by a group including Paris restaurateur Groupe Le Duff—the only investor identified by name. In interviews executives played up French ownership. With anti-French sentiment in the U.S. running high, La Madeleine now claims it is owned mostly by North American investors and that Groupe Le Duff never had any equity interest whatsoever. La Madeleine says correcting that false statement was back then was "down on the list" of things to do. —*Lynn J. Coe*

Costa Rica: Welcome to the New Nigeria

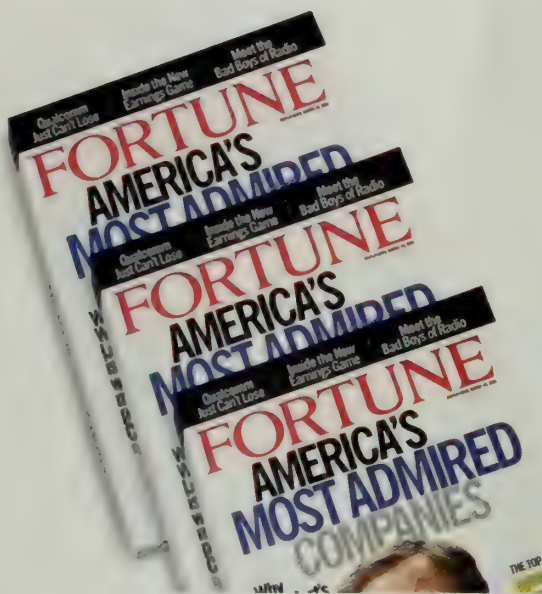
This tiny nation, once home to fugitive U.S. financier Robert Vesco, pops up often in recent financial high jinks. —*William P. Barrett*

NAME/LOCATION	ALLEGATIONS INCLUDE	STATUS
Elaine P. Chalmers/Chicago, Ill.	embezzled money from PaineWebber, then fled to Costa Rica	awaiting U.S. extradition
Salim Damji/Toronto, Ont.	sent some of \$45 million duped from investors to Costa Rica	sentenced to 7½ years
Karolyn Grosnick/Hoodspriet, Wash.	committed tax fraud and moved proceeds to Costa Rica	sentenced to 26 months
Chris Key/Albuquerque, N.M.	claimed U.S. tax deduction for phony Costa Rican warehouse	pleaded guilty
Robert R. King/Kansas City, Mo.	plotting to bribe Costa Rican officials	sentenced to 2½ years
Robert Moses/New York, N.Y.	lured investment into dubious Costa Rican companies	pleaded not guilty
Alvin I. Mess/San José, Costa Rica	bilked \$100 million from retired Americans in lottery scam	awaiting U.S. extradition
Alyn R. Waage/Nisku, Alta.	routed money swindled via Internet to Costa Rican banks	pleaded not guilty

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INSIDE PITCH

Baseball owners with media properties can skirt the league's revenue-sharing system by deflating their teams' balance sheets.

BY MICHAEL K. OZANIAN WITH CECILY J. FLUKE

YANKEES FANS WERE THE BIG WINNERS WHEN Cablevision and the YES Network settled a bitter TV-rights dispute last month. Up to 3 million Cablevision homes in the New York metro area will now have access to every game of the season—if they pay an extra \$2 a month for the privilege—featuring the most star-studded, highest-valued sports franchise in history. The Yankees' value rose 13% to almost \$850 million, a new high, in FORBES' latest annual rankings of team valuations.



This should be great news for Major League Baseball. Seeking to bridge the ever-widening gap between the five or so richest teams and small-market, lower-grossing rivals, the league will force the richies to hand over about \$260 million this year for its revenue-sharing plan.

But don't expect the poorer teams to get their fair share. The new YES pact will let Yankees owner George Steinbrenner effectively divert millions of dollars and shelter it from the revenue-sharing plan. That's because Steinbrenner controls 60% of YES, the Yankees' new exclusive cable channel. This year YES will bring in an estimated \$200 million from cable operators and advertising, most of it derived from Yankee telecasts. The bulk of the proceeds will stay in the pockets of Steinbrenner and his YES partners at Goldman Sachs Group.

• More teams may take the same approach, reporting lower fees for revenue sharing while raking in higher sums through owner-controlled cable channels. The Red Sox do it, the Los Angeles Dodgers do it and so do the Atlanta Braves, the Chicago Cubs and the Toronto Blue Jays. The Twins will launch their network next year. The Houston Astros and the Chicago White Sox may do the same.

The new cable channels could make the richest teams even richer, increasing the disparity between them and the weakest teams in the league. The five most valuable clubs—the Yankees, New York Mets, Red Sox, Dodgers and Atlanta Braves—took in an average of \$46 million in local media revenue last season, compared with a per-team average of \$22 million league-wide. That is why these five teams are worth an average of \$541 million, compared with an average of \$295 million for all teams. (Baseball clubs are valued at two to three times revenue.)

Baseball Commissioner Alan (Bud) Selig first imposed the revenue-sharing plan in 1993 as a way to fix baseball's broken economic system.

He says the financial disparity between top-tier and bottom-tier teams has taken much of the competition out of the sport. The Yankees pulled in \$223 million in revenue last season—almost double the league average—even after paying \$29 million into the revenue-sharing scheme. Their fat checkbook lets them bid enormous sums for the best players, a key reason they are the only club to capture more than one championship in the past decade (the Bronx Bombers have won four in ten seasons).

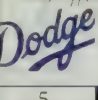
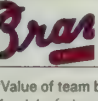
Baseball officials insist revenue sharing isn't being undermined.

"For purposes of revenue sharing," says Robert Manfred, baseball's labor lawyer, "we value all TV deals on what they would get in an arm's-length transaction. And for those deals where there is equity in lieu of cash, we include the value of the equity."

The real numbers suggest otherwise. Last year YankeeNets, the Steinbrenner-owned holding company that controls the Yankees, basketball's New Jersey Nets and hockey's Devils, created YES (Yankees Entertainment & Sports). Last season YES reportedly paid the Yankees at least \$52 million for 130 games. But that fee grossly understates the value of the cable rights, argues Andrew Zimbalist, a professor of economics at Smith College in Northampton, Mass. and author of *May the Best Team Win*. He points out that Goldman Sachs and other investors paid \$340

Kings of the Hill

These franchises sit atop our baseball rankings because of their media assets and lucrative local TV and radio money.

	CURRENT VALUE ¹ (\$MIL)	TWO-YEAR CHANGE IN VALUE	LOCAL MEDIA REVENUE ² (\$MIL)
1.  New York Yankees • George Steinbrenner	\$849	34%	\$73
YES Network revenue should pass \$200 million in 2003			
2.  New York Mets • Fred Wilpon	\$498	10%	\$48
Cablevision moved 50 Mets games to MSG to fill Yankee void			
3.  Boston Red Sox • John Henry; Tom Werner	\$488	44%	\$25
NESN profits give team chance to re-sign Pedro Martinez			
4.  Los Angeles Dodgers • News Corp.	\$449	18%	\$30
Fox owns broadcast rights to 24 teams, including Dodgers			
5.  Atlanta Braves • AOL Time Warner	\$423	4%	\$53
Valuable TV deal with parent-owned TBS Superstation			

¹Value of team based on current stadium deal (unless new stadium is pending), without deduction for debt (other than stadium debt). ²Includes all local broadcast television, cable and radio rights.

million to buy a 40% stake in YES in 2001, giving YES an implied market value of \$850 million.

Zimbalist estimates that last year YES raked in a total \$170 million (\$130 million in subscriber fees, ad sales of \$30 million and \$10 million from games sold to DirecTV and WCBS TV in New York). Take out \$40 million for production costs and Nets games (YES won't carry Devils games until 2007), and YES netted \$130 million in Yankees-related revenue. Subtracting \$10 million in profits for Goldman Sachs still leaves the Yankees with \$120 million—\$68 million more than the \$52 million they received for local cable rights. This year, with Cablevision onboard, YES should generate an additional \$40 million or so in revenue, most of which won't go into the league pot. Chief Executive Leo Hindery Jr. of YES did not return calls for comment.

In 1993, the first year of revenue sharing, the richer teams gave \$20 million total (1% of baseball's overall revenue) to the poorer teams. By 1996, as part of a new contract between players and owners, the top clubs forked over \$50 million, or 3% of aggregate revenue.

RANK	TEAM	VALUE ¹		OPERATING INCOME ² (\$MIL)
		CURRENT (\$MIL)	ONE-YEAR CHANGE	
1	New York Yankees	\$849	13%	\$16.1
2	New York Mets	498	3	11.6
3	Boston Red Sox	488	14	-2.1
4	Los Angeles Dodgers	449	3	-25.0
5	Atlanta Braves	423	0	9.5
6	Seattle Mariners	385	3	23.3
7	San Francisco Giants	382	8	13.9
8	Chicago Cubs	335	17	11.9
9	Texas Rangers	332	-7	-24.5
10	Cleveland Indians	331	-8	-1.0
11	Houston Astros	327	-3	-0.8
12	Baltimore Orioles	310	-3	12.4
13	St Louis Cardinals	308	14	-2.0
14	Colorado Rockies	304	-12	7.1
15	Arizona Diamondbacks	269	-1	-22.2
16	Philadelphia Phillies	239	3	-11.9
17	Detroit Tigers	237	-10	-5.3
18	Chicago White Sox	233	5	1.2
19	San Diego Padres	226	9	4.6
20	Anaheim Angels	225	15	-3.7
21	Pittsburgh Pirates	224	-7	-1.6
22	Cincinnati Reds	223	10	4.9
23	Milwaukee Brewers	206	-14	-6.1
24	Oakland Athletics	172	10	6.6
25	Toronto Blue Jays	166	-9	-23.9
26	Kansas City Royals	153	0	-11.2
27	Minnesota Twins	148	16	0.4
28	Tampa Bay Devil Rays	145	2	1.4
29	Florida Marlins	136	-1	-14.0
30	Montreal Expos	113	5	-9.1
LEAGUE AVERAGE		295	3	-1.3

¹Value based on current stadium deal (unless new stadium is pending), without deduction for debt (other than stadium debt). ²Earnings for 2002 season after revenue sharing, but before interest, taxes and depreciation. For an expanded version of this table, go to www.forbes.com/baseball.

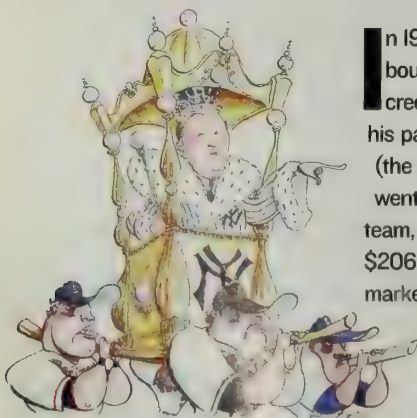
enue. By 2002 the pot had grown to \$169 million, 5% of baseball's total revenue. This season the wealthier clubs will give around \$260 million to the low-revenue teams. By 2006, the last year of the contract, Selig believes the richer teams will transfer well over \$300 million to their poorer rivals.

Selig's plan requires that 34% of all "local" revenue—from ticket sales, local broadcast rights, concessions and parking—be contributed to a pool and then divided equally among the league's 30 teams. But five of the eight most valuable teams—the Yankees, Red Sox, Dodgers, Braves and Cubs—own cable channels or are owned by companies that also own cable networks, letting them reduce revenue sharing and market themselves without having to show the value on their balance sheets.

Last year John Henry, former owner of the Florida Marlins, paid \$700 million for the Red Sox and 80% of the New England Sports Network (FORBES, Apr. 15, 2002). In 2001 the Red Sox received \$18 million from NESN, but the games are worth far more than that. Author Zimbalist estimates that NESN's revenue rose to \$50 million in 2001 from \$39 million the previous year and that NESN netted about \$14 million. Thus Red Sox owner Henry received \$11.2 million of revenues without subjecting it to baseball's revenue sharing. Fueled by the increase in revenue from NESN, the Sox increased 14% in value this year and are now the third-most-valuable team, worth \$488 million.

Similarly synergistic shelters are employed by the Los Angeles Dodgers, owned by Rupert Murdoch's Fox Entertainment Group; the Braves, owned by AOL Time Warner; the Cubs (Tribune Co.); and the Toronto Blue Jays (Rogers Communications). Salvatore Galatioto, a banker with Lehman Brothers, estimates that the value of the Dodgers and its cable sibling combined is at least \$650 million. But you won't find the value of the sports channel accounted for in the team's revenue sharing. The Braves are worth \$423 million, fifth overall, in part because of their cozy relations with the TBS Superstation. Despite Selig's best efforts, capitalism is going to triumph over socialism. It's good business for the owners—but not so good for Selig's revenue-sharing plan.

Statistics: Kurt Badenhausen and Lesley Kump



The Boss

In 1973 George Steinbrenner led a group of investors that bought the New York Yankees from CBS for \$10 million. Incredibly, that's slightly less than what Alan (Bud) Selig and his partners paid a bankruptcy court for the Seattle Pilots (the current Milwaukee Brewers) three years earlier. Selig went on to become baseball's commissioner in 1998, and his team, now held in a trust, appreciated in value to its current \$206 million. Meanwhile Steinbrenner exploited New York's market size and off-the-field deals to build the world's most valuable franchise, worth \$849 million.

Steinbrenner's tenure with the Yankees during the 1970s and 1980s was marred by his conflicts with players, a revolving door in the manager's office and a two-year suspension from baseball for making illegal campaign contributions. It wasn't until 1988 that the Yankees'

financial domination began to take shape, when Madison Square Garden bought the rights to Yankee cablecast for \$486 million, more than tripling the previous year. In 1996 Steinbrenner signed a ten-year, \$95 million sponsorship agreement with Adidas that Selig tried to void on the grounds that it violated baseball's existing agreement. The Boss sued and the deal proceeded. While most owners obsess at the local level, Steinbrenner casts his eye on the world's most valuable soccer franchise, Manchester United, on the Yankee-owned YES network. And this winter Steinbrenner signed the top two international players, Hideki Matsui and Cuba's Jose Contreras. Selig made a bad commish, but Steinbrenner remains The Boss.

—Kurt Badenhausen and Lesley Kump

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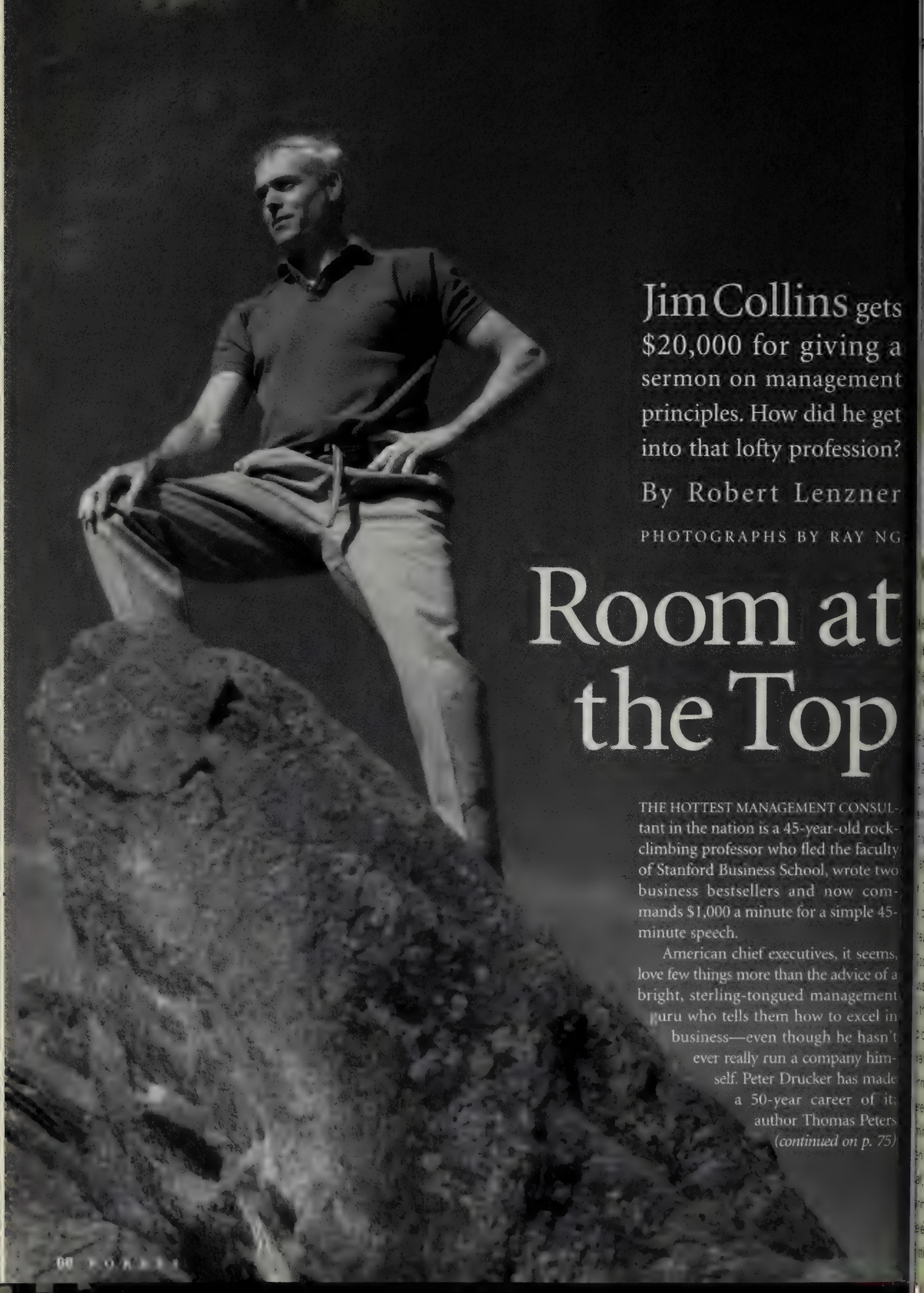
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Jim Collins gets \$20,000 for giving a sermon on management principles. How did he get into that lofty profession?

By Robert Lenzner

PHOTOGRAPHS BY RAY NG

Room at the Top

THE HOTTEST MANAGEMENT CONSULTANT in the nation is a 45-year-old rock-climbing professor who fled the faculty of Stanford Business School, wrote two business bestsellers and now commands \$1,000 a minute for a simple 45-minute speech.

American chief executives, it seems, love few things more than the advice of a bright, sterling-tongued management guru who tells them how to excel in business—even though he hasn't ever really run a company himself. Peter Drucker has made a 50-year career of it; author Thomas Peters

(continued on p. 75)



By Ken Ryan and StaffWriters Plus, Inc.

LONG ISLAND TECHNOLOGY

The Nation's Leader for Tech Innovation

The economy of Long Island, if not the technology landscape, began changing forever 14 years ago when then Defense Secretary Dick Cheney announced that the Pentagon would no longer buy F-14 Tomcat jet fighters built by powerhouse Grumman Corp.

For Long Island, the news was a shot to the gut. The F-14 line was Grumman's largest and most important program, and Grumman, the company that helped bring men to the moon with its design of the Apollo lunar modules, was everywhere. Through the '70s and '80s, it employed 20,000 workers on Long Island, housed in numerous sprawling facilities across its landscape. Today, defense contracts are back in the area, and Long Island companies, including the now merged Northrop Grumman, and others like EDO and Telephonics, are reclaiming some of that business. But the technology profile of Long Island has been altered for good. No single business sector dominates today like it did in the '80s. It has been replaced by a powerful engine of small, global and midsize businesses, fueled by innovators in software, biotechnology, wireless services and electronics. Interestingly, many of those companies are

located in a former Grumman facility now known as the Long Island Business and Technology Center. The center is also home to the Long Island Software & Technology Network (LISTnet), an influential organization of technology companies whose membership numbers close to 1,000 companies and major corporate sponsors, including tech giants Microsoft, Cisco Systems, Computer Associates and Symbol Technologies.

Long before the lunar module, Long Island had been the base for major science and technology breakthroughs, from the discoveries 100 years ago of wireless pioneer Nikola Tesla, to Cold Spring Harbor Laboratory's many advances in understanding the structure of life both before and after the publication 50 years ago this month of the structure of DNA by the lab's head, James Watson.

In fact, over the years, Long Island has garnered four Nobel Prizes for work per-

formed at Brookhaven National Laboratory and three at Cold Spring Harbor. And Long Island students have gained a national reputation in their own right for winning dozens of Westinghouse (now Intel) Science Awards. This year, nine of the 40 Intel Science Talent Search finalists nationwide were from Long Island.

SHAPING LONG ISLAND TECHNOLOGY

A catalyst in shaping Long Island's technology landscape in the years ahead is Stony Brook, State University of New York (SUNY), future home of a \$250 million Center of Excellence in Wireless and Information Technology.

The Center of Excellence "is going to help make Long Island an international powerhouse in high-technology research and economic growth," says New York Governor George Pataki. Funding for the center will be shared by the state, the private sector and the federal government. "The work performed at Stony Brook – in partnership with other academic and industry leaders – will lead to the development of cutting-edge technologies and

"Enterprise Mobility is the next wave of the IT revolution, and our solutions will provide the next generation of productivity gains, cost savings, competitive advantage and operational efficiencies to solve mission-critical business problems."



Bill Nuti,
President and COO
Symbol Technologies, Inc.

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innovative new products, while also bringing the new high-tech jobs of the 21st century right here to Long Island," Pataki says.

The 100,000-square-foot facility will feature labs for emerging wireless technologies, cybersecurity and computer networking, and computational sciences, as well as clean rooms and workforce

training rooms. "The center really puts us on the map," says Peter Goldsmith, president of LISTnet.

Yacov Shamash, who is the dean of Engineering at Stony Brook and was instrumental in the state's decision to locate a Center of Excellence here, says Long Island "has always been good at the convergence of technology, and this center fits us beautifully. Years from now, Long Island is going to be the place to be in the country for wireless technology and its applications."

Over time, the Center of Excellence at Stony Brook is expected to generate thousands of high-paying jobs for Long Island. "Long Island is extremely rich in intellectual horsepower," Shamash says, pointing to Cold Spring Harbor Laboratory, Brookhaven National Laboratory and Stony Brook as catalysts. "We have a huge intellectual base to draw from."

He adds, "The economy is hurting nationwide, and it's a little hard here right now for us, but as far as technology and developing new technologies, we are moving ahead across all disciplines. All areas are growing. This will create new opportunities, new jobs for Long Island."

TECHNOLOGY ON THE HORIZON

New technology applications are being developed by Long Island companies in areas like fiber optics, wireless, enterprise mobility, biotech, nanotech and even the old standby – defense.



Governor Pataki shows his support for Stony Brook University's Center of Excellence.

"We have a unique blend of converging technologies on Long Island," says Tyl Royce, CEO of managed service provider Invision, who is a founding member of LISTnet and also serves on its executive board. "There is a lot of wealth here, there are world-class workers here, world-class facilities and a premier state university." In this innovate-or-die world of technology companies that aren't nimble, that don't change quickly, are left behind.

Holtsville-based Symbol Technologies built its legacy on bar-code scanning technology, devices that are ubiquitous at retail checkout counters. But the future of Symbol Technologies is enterprise mobility in which the functionality of a desktop is put into a handheld device for millions of ground force workers. Symbol's mobility clients vary include the transportation, retail, manufacturing and health care sectors. Virtually every intersection of business transaction or information sharing will be included.

"We feel we're in the sweet spot of the next phase of the IT revolution, which is enterprise mobility, where we can provide an end-to-end solution 24/7 for your mission-critical needs," says Bill Nuti, president and COO of Symbol Technologies.

A LEADER IN FIBER OPTICS AND SOFTWARE

Long Island has moved to the forefront of exciting technologies like fiber optics thanks to companies like Open Access Inc. of Melville, which is laying a fiber-optic



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Computer Associates International, Inc. (CA) is one of the world's largest software companies and the largest IT employer on Long Island. CA achieved its global stature through technological innovation, rigorous customer focus and an unswerving commitment to quality. CA software and services enable organizations to effectively manage information and IT infrastructure to gain competitive advantages in a market that demands speed, innovation and integrity. CA is also the only enterprise software company to achieve true global ISO 9001:2000 certification.

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CA also supports a wide range of community programs and has been recognized as one of the best places to work on Long Island. For more information on CA, visit ca.com.



Computer Associates®

Advertisement 4

backbone that stretches from Riverhead to Manhattan. "What we do provides economic development for scores of businesses, including health care," says John Culbertson, founder and president.

Computer Associates International, Inc. (CA) is one of the largest software companies in the world and the leading provider of software for managing IT infrastructure across all industries, including financial, educational, health care, insurance, manufacturing and government.

Working closely with the technical, government and business communities of Long Island over the years, CA has played an integral role in fostering the area's prestige as a hotbed for technology development. The company has helped nurture and grow the computer science department at Stony Brook University and provides ongoing support to the school's Center of Excellence. Many employees at CA are Stony Brook graduates.

"CA grew up on Long Island, and we love it here," says Yogesh Gupta, chief technology officer for CA. "With a great pool of talent and educational and technical resources, Long Island is a wonderful place for technology companies to build their business. The Island has a long history of being at the forefront of innovation."

That history of innovation intersects well with CA's strategy to develop and market industry-leading products in infrastructure management, security and storage.

"In today's climate, you can't just throw more people at the job," Gupta says. "You need the tools to manage IT."

INCUBATORS ARE INSTRUMENTAL IN TECH INNOVATION

Few have achieved such success in such a short time as the LISTnet incubator at Briarcliffe College, which has been operating for less than four years. Unlike many incubators that promote their start-ups after a year and send them packing, LIST-

net's incubator approach is to work closely with both start-ups and more experienced companies that may be struggling.

Farther east, the Long Island High Tech Incubator is the oldest and largest on island. Since 1984, it has worked with more than 100 companies and graduated about a quarter of them. Also at Stony Brook is a second incubator that operates with the support of Computer Associates and focuses on software.

Meanwhile, Phase One of a \$20 million incubator at SUNY Farmingdale's Brook Hollow Bioscience Park has been completed, and Phase Two is expected to generate hundreds of jobs for Long Island.

Another incubator, the Applied Technology Center in Bay Shore, is run by the Long Island Forum for Technology (LIFT) and was created as the next level for small, technology-based organizations that have graduated from incubators to continue their advancement.

OUTSTANDING BUSINESS AND LIFESTYLE ADVANTAGES

As Long Island has grown rapidly, demographics have changed radically from a New York City backyard to an economic powerhouse, where residents enjoy miles of ocean and beaches, hundreds of golf courses, exceptional school districts and spacious homes.

"Long Island has so much going for it. Our region is really primed for the future because of the convergence and the number of people we have here," says LIFT's Goldsmith, whose organization runs several major events a year in an effort to foster "co-opetition" – combining competition with cooperation.

Long Island has never been better positioned to develop and deliver great products and solutions. Perhaps a few will be so revolutionary to rank among the great discoveries of all time. And why not? It has happened many times before, right here on Long Island.

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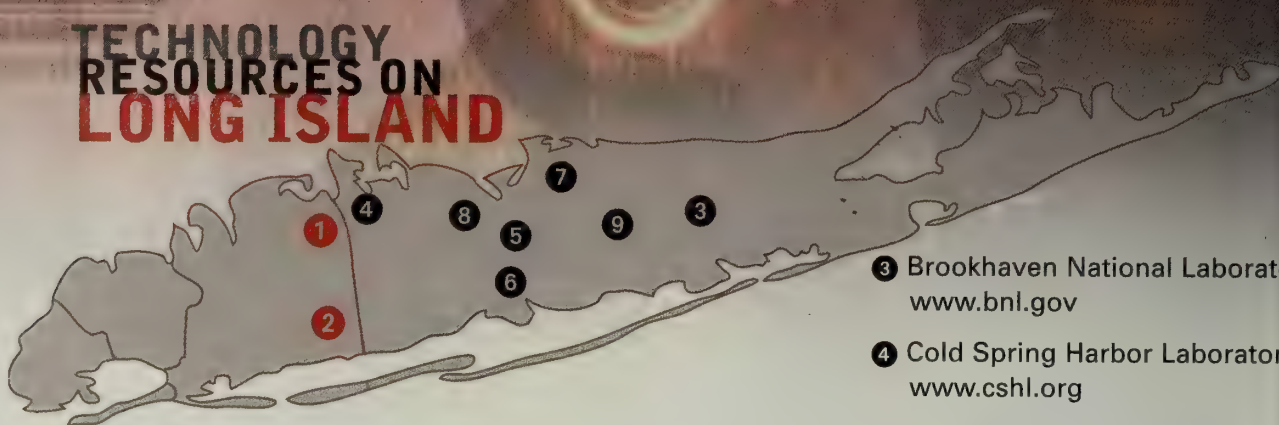


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(continued from p. 68) became a 1980s superstar with his tome *In Search of Excellence*. And now James Collins is the flavor of the moment. His first bestseller, *Built to Last*, published in 1994, has sold more than 1 million copies. His second, *Good to Great*, has also sold more than 1 million copies worldwide, and is now climbing back up the bestseller charts—18 months after its debut.

Collins, a cranky lone wolf who operates out of the first-grade classroom he attended as a boy in Boulder, Colo. (a friend bought the schoolhouse and converted it into rented office space), is so popular now he accepts only 1 in 25 prospective assignments. His adoring clients include McDonald's, Coors Brewing, Amazon.com, the venture wizards at Kleiner Perkins and, oddly enough, the Cleveland Philharmonic Orchestra. Collins earns \$3 million a year for his half-day "labs" (at \$20,000 a shot) and 45-minute speeches (\$45,000).

Yet at first glance, Collins' sage advice seems to offer not so much insight as a blinding glimpse of the obvious. In an era when business managers are tormented by corner-office scandals, the bear market, the war and fears of terrorism, his proclamations are a kind of comfort food.

He spins out reassuring truisms: Companies should set especially ambitious goals. Chief executives don't have to be charismatic to succeed. Those who put their companies first, rather than themselves, are more likely to thrive. Companies that make profit maximization their priority don't perform as well as firms that live up to the core values of their founders. He preaches patience: A real turnaround can take seven years, and failing to "embrace that fact is one of the primary causes of chronic mediocrity." Collins says it's okay to enter a new tech market late rather than get there first, and that technology doesn't assure greatness but merely accelerates it—soothing words for tech-shy chief executives.

Collins' pearls of wisdom, and the time they bring him, rankle some rivals. Jeff Peters took a swipe on his own Web

site recently, writing of "my pal (former?) Jim Collins, the Built to Last Guy ... likes incremental change & con-ti-nu-ity. I love V-E-R-Y CREATIVE & MESSY DESTRUCTION." A McKinsey director snipes that Collins secludes himself in Boulder, a uni-



Collins confronts the "brutal reality." Rock climbing "channels my intensity and improves my focus."

versity town, to cultivate his image as the "rock star" of consultants.

Yet Collins' clients swear he offers "more than a collection of aphorisms," as Kleiner Perkins partner John Doerr puts it. "I adopted the Collins rule of thumb for the development of leadership: that it is essential for each portfolio company to get the right people in the right seats on the bus to drive to the right destination," he says. Kleiner hired a partner devoted solely to helping Kleiner-funded companies recruit and develop the right talent.

W. Leo Kiely III, president of Coors, adopted Collins' "hedgehog" rule of management: "Concentrate all energies and passion on one big goal." (The allusion is to a Greek adage popularized by philosopher Isaiah Berlin: The fox knows many things, the hedgehog knows one big thing.) The company set out to become one of the top five global beer companies by trying to increase market share in a select number of markets, rather than attacking everywhere. For example, in the U.K. they now rank number two, with 19% market share.

Even Collins himself sometimes wonders why chief executives need his reassurance on things that are common sense. "Why don't they figure out solutions themselves?" he muses. His best guess: "For ten years everyone had the luxury to think they were great. But all of a sudden they woke up to discover that they weren't great—the markets had been great." Now, he figures, they need his help. "CEOs need someone to push and challenge them. I am just the lucky beneficiary of the turbulent times."

Collins says that how a company measures its performance is critical. Sheer profit isn't the best gauge, he argues; corporate greatness requires every company to isolate and measure the most profound economic denominator that best reflects its ability to make money. Less than 10% of companies understand their true economic denominator, he asserts.

Collins came to this conclusion while studying Walgreen, the drugstore chain, for his book *Good to Great*. The company's competitors fixated on the usual measure of success: profit per store. Walgreen targeted gross profit per customer visit. That led it to a strategy of picking corner sites with multiple entrances and exits for easy access, a high density of stores in cities it entered and lots of services like one-hour photo developing. The concept: Let's get ourselves identified in the customer's mind with convenience.

Borrowing from this, Collins influenced Amazon to focus on the profit earned on each customer visit for a whole

range of products sold under the Amazon brand, rather than profit per book sold. The Web retailer just posted free cash flow (cash flow from operations, less capital expenditures) of \$135 million in 2002. Books, music and video sales now account for less than 50% of revenue; the rest comes from sales of hundreds of other kinds of products.

Collins delivered the same lesson in advising a group of nine of the largest orchestras in the U.S., urging them to see that their business target was not profit per concert but profit (including contributions) per concertgoer. Make the big customers love the orchestra. Make them into donors. "They have to convert rich people into passionate lovers of great music," he says.

Now Collins, at the urging of Intel Chairman Andrew Grove, is turning to corporate autopsies, studying why great companies relapse into merely good ones and why some fall all the way to mediocre. Fast-food giant McDonald's, a new client, had "fossilized practices," he says bluntly. "Its core values, systems and products haven't been overhauled since founder Ray Kroc's era," he argues. He believes McDonald's can get from good back to great. His long-term solution: Open new restaurant formats in one region of the U.S. and gradually expand globally. Yet McDonald's is considering just the opposite; it may sell specialty chains like Boston Market and Donatos Pizzeria.

Another autopsy: Circuit City, which isn't a client but is one of the firms he examined in *Good to Great*. The electronics chain failed to "confront the brutal reality" that rival Best Buy was gunning for it, he says. It focused internally on information and point-of-sales systems, ignoring the external reality. "They have to refocus on what best consumer products will raise them again to great."

Long before Collins became a guru for corporate chieftains, he was a rock climber recognized for his fearlessness, the first to conquer some of the nation's craggiest

cliffs. He still climbs the rocky spires behind his Colorado home. "It channels my intensity and improves my focus." This intensity was inherited from his grandfather, the famed daredevil test pilot Jimmy Collins, whose autobiography was made



Big, hairy, audacious goal: "Jim poked, he prodded, he challenged," says Orin Smith of Starbucks.

into the Hollywood film *Test Pilot* starring Clark Gable in 1938. His grandfather died young in an air crash.

Collins' father, Darr, was "incompetent and indifferent," Collins says. Jim's mother moved Jim, then 9 years old, and his brother, Michael, now a western regional sales manager for Panasonic, from the San Francisco hippie scene to Boulder. Some years, he says, she was so poor that she pilfered food from supermarket shelves, feeding it to the kids as they walked the aisles.

Collins graduated from Stanford in

1980 with a degree in applied math and spent 18 months in McKinsey & Co.'s San Francisco office, where he stumbled on the project that two partners at the time, Tom Peters and Robert Waterman, later turned into *In Search of Excellence*. He returned to

Stanford and earned an M.B.A. in 1981. Then came an 18-month stint as a product manager at Hewlett-Packard. He quit and vowed never to work for a company again. Next he spent a few years signing up product endorsements for his triathlon champion wife, Joanne Ernst, and in 1988 he took a \$32,000-a-year job teaching entrepreneurship at the B-school.

By 1994 he and colleague Jerry Porras had published *Built to Last*, looking at why Johnson & Johnson, Merck & Co., Procter & Gamble and a few others have thrived for decades. Collins' stardom in the classroom and refusal to get a Ph.D. had strained his relations with Stanford faculty. "I didn't care much what they thought of me. I didn't need them to make me powerful." He quit in 1995, returning to Boulder to "self-endow my own professorship, give myself tenure and swap M.B.A.s for CEOs."

Collins says his role is "to change people's brains. Then they change companies. I intellectually challenge people. People want that. It's what is largely missing today."

Working with Orin Smith, Starbucks' president, Collins was dismissive of Smith's original goal, to grow from 500 to 2,000 outlets. "Pick a goal so audacious it would take 15 to 25 years to accomplish,"

he urged the Starbucks head. Eventually Starbucks came up with what Collins calls a "big, hairy, audacious goal"—to become "the most recognized and respected consumer brand in the world passing even Coca-Cola."

"Jim poked, he prodded, he challenged; he forced us to understand we were not just a fad of the 1990s, but that we could become a great and enduring global brand," says Smith. "Without Jim we would never have set this strategic goal. We would not even have thought of it."

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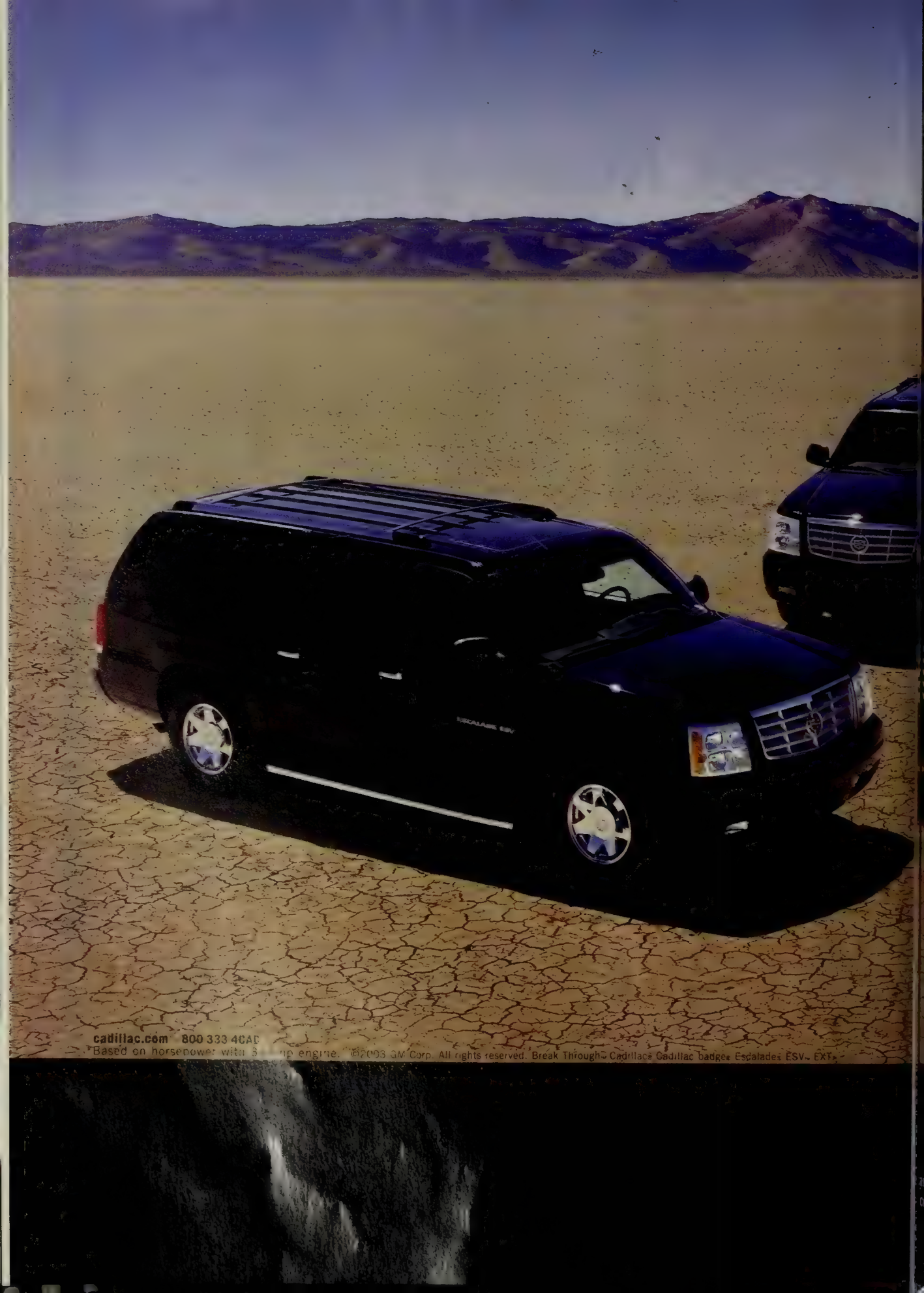
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These funds were rated among the following categories for the overall rating and the 3-, 5-, and (if applicable) 10-year periods: Capital Appreciation Fund, 732, 732, 580, and 150 domestic hybrid funds; Blue Chip Growth Fund, 826, 826, and 555 large growth funds; Equity Income Fund, 632, 632, 494, and 170 large value funds; Small-Cap Stock Fund, 259, 259, 187, and 48 small blend funds; Spectrum Income Fund, 160, 160, 118, and 38 multisector bond funds; GNMA Fund, 270, 270, 233, and 115 intermediate government funds. †-13.04%, 2.54%, and 10.90% are the Equity Income Fund's average annual total returns for the 1-, 5-, and 10-year periods ended 12/31/02, respectively.

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A black Cadillac Escalade ESV is shown from a front-three-quarter view, parked on a cracked, dry desert floor. The vehicle has a silver grille with the Cadillac logo, multi-spoke alloy wheels, and a roof rack. In the background, there are rolling sand dunes and a range of mountains under a clear blue sky. The front of another Escalade is partially visible on the right side of the frame.

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How Long the Slump?

THE AUTO BUSINESS, THE STAR OF THIS SLUGGISH economy, is headed down. Three months of falling sales are enough to make a trend. And it raises some tough questions. How far will sales fall? The negatives are the war, low consumer confidence, high gasoline prices and layoffs. Based on the first-quarter declines and the less-than-likely chance that sales at the end of this year will match last year's surge, I predict a sales decline of 1 million units. That's a 5% to 6% drop. Last year sales were 16.8 million, so figure 16 million as a working number for this year's prediction.

A million vehicles is what comes out of five assembly plants. So we're talking about sharply cutting hours or even closing plants at General Motors, Ford and Chrysler. But Honda and Toyota won't be closing assembly plants, because these foreign rivals have been taking a growing share of vehicle sales, meaning they can grow or hold steady despite the overall sales decline.

The Detroit companies have been struggling to keep from closing plants. It's hugely expensive since workers get paid forever, meaning until the company finds them a new job, they get bought out or go on pension. It's also upsetting to the union, and this is a negotiating year.

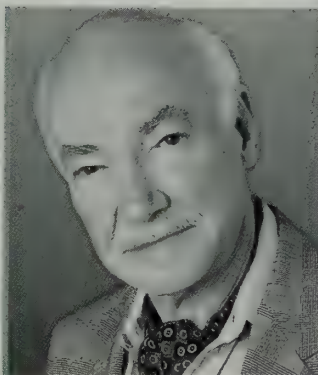
But there is a more depressing thought. How long will the slowdown last? Go back to the Gulf war of 1991. Sales had been averaging 15.3 million for five years. Then in 1990 they fell to 13.9 million. In 1991, the war year, they were down to 12.3 million, and 1992 wasn't much better at 12.9 million. In those two very weak years, sales declined 15% from the average in previous years. Then they began climbing with the boom in trucks.

Apply that pattern to today's market: If sales drop 15%, it means we would be at 14.5 million for a couple of years. Again, maybe we won't have a two-year slump. Maybe sales will start to soar now that we have marched into Baghdad. Maybe every returning Marine will want a new Chevy Avalanche and every GI will want a new Ford Explorer. But we're in a downturn, and we might as well admit it.

The sandstorm is hitting just as a bunch of new vehicles are coming out. The war news wipes out the publicity that new models usually get. There's no new-car talk on the morning TV shows. It's not that people aren't working or have empty wallets; it's that cars just aren't in the air. This becomes a serious disadvantage.

Chrysler, for example, just introduced the Pacifica, its sports tourer (or station wagon). The price runs in the middle to high \$30,000s. The target is 100,000 sales. This isn't to say the Pacifica will be a failure; that would be crushing to Chrysler. But I'd bet it won't get the anticipated sales, in part because of the war-news diversion.

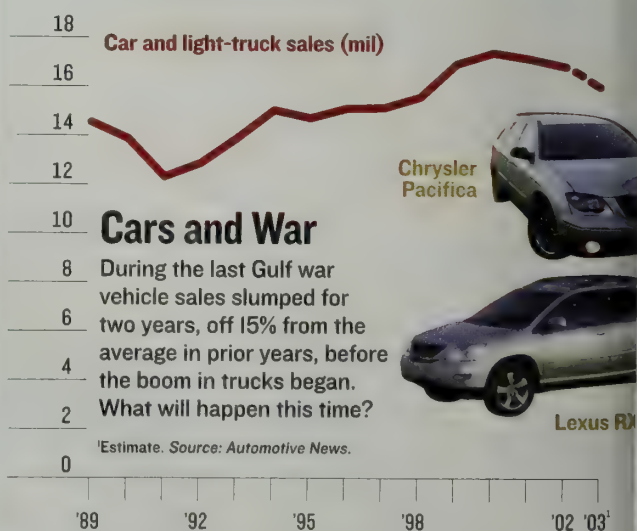
Nissan has an entire fleet of new vehicles. Toyota has



We have lots of other unanswerable questions. Can Detroit invent new incentives—beyond 0% financing over five years beyond \$2,000 rebates—to pump up sales? Will the United Auto Workers understand the problems and make concessions in this fall's negotiations? And what about the momentum building for better fuel economy? Will this somehow crush Detroit's most profitable business, the big sport utility vehicles?

My predictions: a downturn lasting several years. No more 17-million years for a bit. More market share losses for GM, Ford and Chrysler.

But when it's over, when sales start rising, the Detroit companies will be in better shape. They will have a smaller market share, but enough plants will have been closed to eliminate excess capacity. The new cars and trucks now on the drawing boards will be in showrooms and the home team will be competing against the Hondas, Toyotas and Mercedes with seriously attractive products, not just rebates.



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Homewood Suites by Hilton® is a new generation of lodging that blends the best features of residential-style living with the most appealing amenities of a great hotel.

The convulsions in the nation's airline industry during the last two decades have obscured equally dramatic changes on the ground. While the soap operas in the skies have commanded the most attention, the lodging industry has quietly spent most of the last 20 years fundamentally changing the nature of where and how business travelers work, sleep and interact on the road.

Less than a generation ago, traveling executives had approximately two choices: the traditional, full-service, big-city hotel or the small, modest, side-of-the-road motel. During the intervening years, however, an exciting array of new hospitality products were created: roomy, quasi-residential, all-suite hotels; boutique hotels that offer a quirkier and more personal stay; chains of "focused-service" properties that specialize in offering some traditional hotel amenities at the expense of other perks; economy and budget brands, which strip the lodging experience down to the absolute basic requirements; and "luxury" chains that highlight fancy dining rooms, fawning service and over-the-top furnishings for travelers on an unlimited expense account.

But from this panoply of new lodging options, one clear and practical winner has emerged for both leisure and business travelers. The "all-suite" hotel, which offers the best features of residential living with the most practical amenities of great hotels, has proved to be the fastest growing and most universally applauded portion of today's carefully segmented lodging industry. And the undisputed star of this lodging category is Homewood Suites by Hilton, the growing brand of upscale, all-suite hotels which offers high-quality, residential-style lodgings ideal for travelers who stay a few nights or longer.

Launched in 1989, Homewood Suites by Hilton has grown to more than 120 locations nationwide. The premise behind each property is irresistible: Make travelers feel at home on the road by providing them with all the comfort, convenience and privacy of home for the price of a standard hotel room.

Each Homewood Suites by Hilton hotel features a unique "community concept" with



a complex of residential-style suites, built around a hospital center called a Lodge. Although the chain was originally designed for longer-term travelers working on field assignments, relocating to a new community, attending seminars, conventions, or participating in corporate training programs, Homewood Suites by Hilton also has proved to be popular with families, leisure travelers and individual business travelers.

The appeal of the concept is undeniable. Accommodations at Homewood Suites by Hilton are spacious studio, one- and two-bedroom suites that are nearly twice the size of a standard hotel room. They also are completely and thoughtfully outfitted with all the amenities of home. Each accommodation is designed with enough space for work, study or entertaining. Fully equipped kitchens feature a microwave oven, refrigerator, dishwasher, twin-burner stove, coffeemaker, utensils and place settings for four. Guests enjoy a remote-controlled television, a video cassette player or on-demand movies, two telephones with dataports, voice mail, and an iron and ironing board.

To this comfortable, home-like atmosphere, most Homewood Suites by Hilton hotels have the amenities of a fine traditional hotel: complimentary newspaper delivered to the suite Monday through Friday; an on-site, 24-hour convenience store; guest laundry facilities; a swimming pool, exercise room and sports court; a 24-hour business center; and a small, private meeting room.

But Homewood Suites by Hilton offers still more: service that you can't find either at home or at a hotel. There's complimentary hot breakfast in the Lodge each morning, a complimentary evening Manager's Reception Monday through Thursday (subject to state and local laws) and complimentary grocery shopping



vice (guest pays for groceries; other restrictions apply).

The ways that we draw the lines between home and work, the personal and the public, are especially visible during business travel," explains Calvin Stovall, Vice President of Marketing, Homewood Suites. "Because of the demands on the family in today's economy, when you go on a business trip, your personal life and away-from-work responsibilities cannot and simply do not stop."

Traditional lodging options can't accommodate all of those demands. But because it mixes residential-style living with hotel amenities, Homewood Suites by Hilton® can.

Many business travelers are more relaxed in a hotel room that feels a little 'closer to home' while still supporting the need to focus on work activities," says Stovall. "A hotel like Homewood Suites helps you organize the travel, work and home aspects of your life. You can cook for yourself, socialize over breakfast in the Lodge, enjoy quiet time in your suite or get out to meet new people at the evening Manager's Reception."



Homewood Suites by Hilton offers another unmatched amenity: an unconditional 100% Satisfaction Guarantee. If guests are not completely satisfied, they are not expected to pay for that night.

One more comforting perk: As part of Hilton Hotels Corporation, one of the world's preeminent hospitality companies, Homewood Suites by Hilton participates in the Hilton HHonors® hotel guest reward program. Hilton HHonors allows its members to Double Dip® by simultaneously earning both hotel points and airline miles with each qualifying stay.

To make reservations at one of the more than 120 Homewood Suites by Hilton hotels in the U.S. and Quebec, Canada, access the Homewood Suites by Hilton Web site at homewoodsuites.com, or call the chain's national toll-free number, 1-800-CALL-HOME®.

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DANGEROUS LIAISONS

Iraq isn't the only place where despots have been sitting atop oil reserves. How does a company like ExxonMobil keep its pipelines filled without getting its hands very dirty?

BY DANIEL FISHER

OUTSIDE THE HUSHED, CARPETED offices of Harry Longwell, executive vice president of ExxonMobil Corp., hangs an 8-foot-wide painting of a panoramic view of the Angola coast. Painted in brilliant colors with lighting reminiscent of a Turner seascape, it portrays a fishing village with a line of majestic bluffs rising behind it. "Just around the corner is Luanda," says Longwell, pointing to the headlands in the background. "It's a beautiful country."

Especially if you own the oil rights. ExxonMobil controls concessions covering 12 million acres off the coast of Angola that hold an estimated 7.5 billion barrels of crude.

Getting at that oil wasn't pretty—ExxonMobil handed hundreds of millions of dollars to the corrupt regime of President Jose Eduardo dos Santos in the late 1990s, helping to prolong Angola's ruinous civil war—but then the oil business is rarely pretty. "You kinda have to go where the oil is," deadpans Lee Raymond, ExxonMobil's chairman.

Like to Iraq, where French and Russian oil companies maneuvered for oil concessions even after the United Nations slapped sanctions on the regime of Saddam Hussein. There are plenty of Saddamlets around the world with whom ExxonMobil and every other Western oil company openly does business. They have

little choice. North America and Europe still supply 70% of Exxon's 4.2 million barrel equivalents a day of oil and gas production, but the reserves there are dwindling. If you are running a big oil company, you either deal with the despots or watch your company liquidate itself.

Angola is just one of several promising but politically unstable—and often violent—regions like Kazakhstan and Equatorial Guinea. Nigeria, run by brutal military dictators for most of its independent years, has huge oil deposits (*see box, p. 92*).

The financial stakes for an outfit like ExxonMobil are prodigious. It earned \$9.5 billion after taxes extracting fossil fuels last year, four times what it netted from refining and chemicals. Without a new supply it would be reduced to earning a slim refining markup on crude it buys from well owners. Which is why ExxonMobil is willing to apply its diplomatic and economic muscle over a long period of time to get into a new oilfield. That means courting pipsqueak countries controlled by bad guys.

The company and its partners spent almost three decades trying to get the billion-barrel Doba field in southern Chad, a \$3.5 billion project that includes a 650-mile pipeline through Cameroon to the Atlantic coast. Courting gifts included six restored locomotives, a dozen bridges, 77,000 mosquito nets and a \$25 million payment to the government of Chadian President

Too hot for some: To keep America's SUV owners happy, oil companies get in bed with bad guys.



STRONG MEN, POWERFUL ASSETS

"You kinda have to go where the oil is," says ExxonMobil Chairman Lee Raymond. Increasingly, for all oil companies, that means partnering in nasty places the world over. How important a source will Iraqi oil be? That depends on the terms companies like ExxonMobil will be able to



Oil money keeps the regime of President Teodoro Obiang Nguema Mbasogo in power—and the opposition in jail.

CHAD

Companies: ExxonMobil, ChevronTexaco, Petronas
Amount of oil: 1 billion bbl.

EQUATORIAL GUINEA

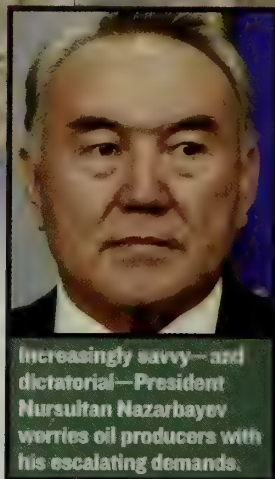
Companies: ExxonMobil, TotalFinaElf, Marathon, Amerada Hess
Amount of oil: 500 million bbl.

ANGOLA

Companies: ChevronTexaco, BP, ExxonMobil, TotalFinaElf
Amount of oil: 5.4 billion bbl.

KAZAKHSTAN

Companies: ChevronTexaco, ExxonMobil, Royal Dutch/Shell Group, China National Petroleum, TotalFinaElf
Amount of oil: 50 billion bbl.



Increasingly savvy—and dictatorial—President Nursultan Nazarbayev worries oil producers with his escalating demands.



President Idriss Deby got around a World Bank-administered program designed to steer oil revenue to Chad citizens.



President Jose Eduardo dos Santos and his cronies are accused of siphoning off \$1 billion a year in oil revenue.

All reserve figures are estimates.

Idriss Deby—who immediately siphoned off \$4.5 million to buy arms for a war against northern rebels.

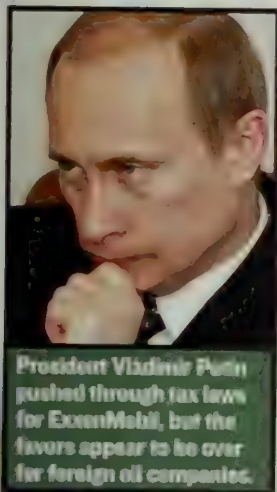
Deby bought the arms despite an ingenious structure that the World Bank set up

to guarantee that oil-related revenue would be spent on social needs instead of on weapons and the military. Under that program, the \$2 billion in taxes and royalties the project in Chad is expected to throw

off over the next 30 years goes into bank accounts monitored by a nine-member panel, chosen by the government, churches and labor unions, that has a mandate to spend at least 80% on social programs and

SAKHALIN ISLAND

Companies:
ExxonMobil, Royal Dutch/Shell Group
Amount of oil:
8.4 billion bbl.



President Vladimir Putin pushed through tax laws for ExxonMobil, but the favors appear to be over for foreign oil companies.

citizens and bought arms with impunity. "In Chad, the Congress is controlled by the president, and the law allows the allocations to be changed after five years," says Ian Gary of Catholic Relief Services, active in Chad. "That, coincidentally, is when the money starts flowing."

Foreign oil companies have also come under heavy criticism in Angola, where Chevron (now ChevronTexaco) discovered offshore reserves in the late 1960s. Ties between foreign oil companies and the once-Marxist dos Santos regime have grown tighter as the size of discoveries has grown.

Spread the blame widely. TotalFinaElf, BP and ExxonMobil handed over \$870 million in "signature bonuses" for offshore drilling rights in 1999. Dos Santos immediately spent much of the money on arms to fight rebels led by Jonas Savimbi, according to Global Witness, the London-based human rights group. Global Witness accuses his regime of taking kickbacks from crooked arms merchants and stealing up to \$1 billion a year from its poorly documented oil revenues.

Oil companies generally decline to reveal payments to foreign governments, saying it would violate confidentiality clauses in their contracts. The enormous signature bonuses are verified by Scottish consulting firm Wood Mackenzie. A spokesman at the Angolan embassy in Washington, D.C. denies reports of corruption, blaming apparent lapses in financial reporting on "technical problems."

Another flashpoint is Kazakhstan in central Asia, where Western oil companies will invest \$37 billion over the next 40 years. American consultant James Giffen was recently indicted by a federal grand jury in New York for funneling \$78 million in oil-company payments in 1997 and 1998 through shell companies in the British Virgin Islands to accounts U.S. authorities believe are controlled by Kazakh President Nursultan Nazarbayev and his cronies, in connection with oil concessions. ExxonMobil acknowledges that Mobil, which it bought in 2000, dealt with Giffen. It is cooperating with the feds and says Giffen was an official representative of the Kazakh government at the time. A former senior Mobil executive, J. Bryan

Williams, was indicted separately for evading taxes on a \$2 million kickback related to Mobil's business in Kazakhstan. (Both Giffen and Williams have pleaded not guilty.)

ExxonMobil also inherited an image problem in Equatorial Guinea, where Mobil obtained concessions in the mid-1990s. The *Los Angeles Times* earlier this year detailed how oil companies have deposited more than \$300 million into government accounts at Riggs Bank in Washington, D.C. that are apparently controlled by Brigadier General (Ret.) Teodoro Obiang Nguema Mbasogo, the country's oppressive ruler. An IMF official familiar with Equatorial Guinea, speaking on condition of anonymity, says the fund is "quite concerned" about the country's use of offshore bank accounts and lack of a published budget. "It's very difficult to say how much money is entering the revenues of the government," the official says.

If dealing with the Nazarbayevs and Mbasogos of the world is a necessary evil in the oil business, ExxonMobil is hardly new to the game. As Standard Oil of New Jersey in the 1920s, the company pioneered oil production in Venezuela's Lake Maracaibo after winning concessions from the brutal regime of General Juan Vicente Gómez. By the eve of World War II Gómez was dead and Esso was getting half its crude from Venezuela. Executives decided to support reformers who increased taxes but stopped short of nationalizing the industry, as Mexico did in 1938.

Raymond is unapologetic about making deals with regimes that lean toward the diabolical. It's the price of securing oil supplies for U.S. consumers, he says. All he can do is ensure that ExxonMobil doesn't violate the Foreign Corrupt Practices Act by directly bribing officials of other governments. (Congress passed that law in 1977 after spectacular revelations—including the fact that Exxon's Italian unit had paid out \$50 million to labor unions and political parties in the 1960s and early 1970s.) "Resisting corruption at all levels and in every country is the standard of this outfit, and once people understand that, it's amazing how you don't have to deal with it very much," Raymond says. Noting the reporter's raised eyebrows, he adds, "You do get some projects stolen away, but my reaction is: If that's the way it

rastructure.

But human rights groups are skeptical at the scheme will work any better than the porous oil-for-food program in Iraq, under which Saddam Hussein starved his

is, that's the way it is."

A trial now under way in France involving former executives of Elf Aquitaine, the onetime state-owned oil company, might reveal some of the contracts that got away. Prosecutors allege that Elf executives stole hundreds of millions of dollars from slush funds the company used to bribe Third World leaders, both to secure oil supplies and spread French influence.

ExxonMobil can avoid petty corruption mainly because its projects are so huge. In Chad, for example, one of the world's poorest countries, with a per capita income of \$203 a year, the government had no choice but to agree to the plan set up by the World Bank to oversee the spending of its oil windfall. (Chad argued the initial \$25 million bonus wasn't subject to oversight, but it has agreed to repay the \$4.5 million spent on weapons.) Countries with more experience in the oil business will likely resist such stringent controls.

Raymond himself seems to backpedal when asked if he could demand a Chad-like structure in a country like Kazakhstan. "Go talk to Nazarbayev," he snaps.

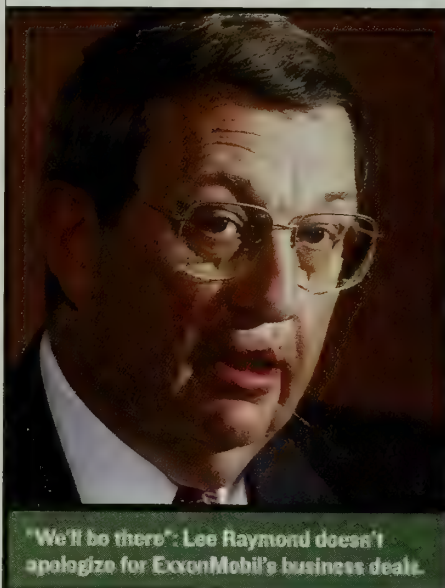
Still, ExxonMobil and its peers eagerly seek out such oversights, partly because they offer insulation from prosecution under the Corrupt Practices law. They also provide a clearer picture of a country's oil earnings, an important U.S. policy goal. "The more transparency we have, the harder it is to funnel money to terrorist groups and phony charities," says Stuart Eizenstat, a Washington, D.C. lawyer who helped write the 1977 law as a Carter Administration official and now serves on a committee that oversees sales generated by the Baku-Tbilisi-Ceyhan pipeline from the Caspian Sea.

Some countries recognize that conceding oversight can bring them more clout as they obtain loans to invest in oil projects. "If countries are poor and unstable, the private sector looks at them as if they were either prey or places to avoid," says Michel Pommier, World Bank coordinator of the Chad/Cameroon project. By borrowing from international sources and investing directly in the project, he says, Chad was able to double its take to 40% of revenues. "If this were to be done today in Chad, the take would be 60% to 70%," Pommier says.

The more sophisticated the host coun-

try, the harder a bargain it drives. Even the poorest nations are hiring politically connected law firms, such as Baker Botts and Akin, Gump, Strauss, Hauer & Feld.

In Angola technocrats negotiating the latest round of big oil contracts have driven the tax rate to close to 80%, according to international contract expert Gordon Barrows of Barrows Co. In a recent project in-



"We'll be there": Lee Raymond doesn't apologize for ExxonMobil's business deals.

volving Elf and ExxonMobil, Angola succeeded in winning a sort of windfall-profits tax that gives the government all profits above an inflation-adjusted oil price of \$20 a barrel, Barrows says. That leaves the foreign oil companies a profit of about 15% after capital and operating costs, Barrows says, compared with 30% in the U.S.

There are compensations. U.S. tax law treats royalty costs as mere deductions, while foreign income taxes count as dollar-for-dollar credits against U.S. income tax. So most countries structure a deal so that their share of the loot looks like a tax, not a royalty.

Negotiating these deals is an all-consuming process. In China, ExxonMobil has spent years negotiating a \$3 billion refining joint venture with Sinopec, the state-owned oil company. Before it commits to spending a dime, ExxonMobil executives and lawyers are struggling to negotiate contracts that specify every detail of how the company will be taxed and how it can get its money out. Edward Galante, senior vice president in charge of downstream operations, has been traveling to Beijing almost monthly.

"It's a long process of coming to like mind about what will work," he says. "They look at the world through a different prism."

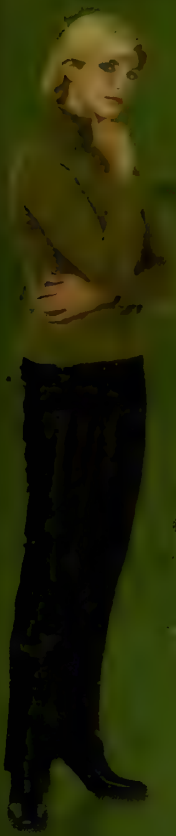
Raymond, a jowly South Dakota native who freely speaks his mind, would never be confused with a diplomat. But he flew to Angola several times during its civil war to meet with dos Santos, and he has close relationships with most world leaders he needs to know, including the Saudi prince and Russian President Vladimir Putin.

Such personal lobbying helped ExxonMobil wring changes in Russian tax law to allow construction of the company's \$1.1-billion Sakhalin Island project off the coast of Siberia. ExxonMobil earlier in the decade had won a key battle against Russian oil companies by obtaining a production-sharing agreement, which gave it more protection against arbitrary tax increases. But the Russian Duma failed to pass the necessary tax laws to accompany the deal until ExxonMobil, with the help of the U.S. government and Putin, applied pressure. ExxonMobil "moved a lot of issues through the administration and the Duma and obviously wouldn't have done so without the involvement of Putin," Raymond says.

What about Iraq? "Contrary to popular belief, we have not had a single conversation with the U.S. government about Iraq," he says. That's probably because Iraq's reserves of 112 billion barrels, second only to Saudi Arabia's, would come with some very hard bargaining. ExxonMobil has, for the same reason, all but abandoned a project to develop vast gas reserves in Saudi Arabia. "Given what we can invest for around the world, it just wasn't competitive," Raymond says.

ExxonMobil plans to spend \$100 billion through 2010 on new and existing oil projects. Africa and the Caspian Sea region it figures, can supply it with about 1.6 million barrels a day of oil in a few years, compared with worldwide liquids production (crude and natural gas condensates) of 2.2 million barrels a day last year. Risky? Raymond has little patience with the question. "People of your ilk were wondering 50 years ago should we invest in Saudi Arabia 40 years ago in Libya, 25 years ago in Indonesia and Peru," he growls. "If there is a province that is acceptable from an industrial point of view, we'll be there."

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SUPPING WITH THE DEVIL

Lawsuits in California serve warning to companies that want to do business in nasty countries.

BY MICHAEL FREEDMAN

DEEP IN THE JUNGLE OF SOUTHERN Burma (Myanmar) live 40,000 villagers who tend to maize and rice farms, raise livestock and fish in the rivers. Traversing their land is a natural gas pipeline, 36 inches in diameter and 6 feet underground. It begins 215 miles offshore before entering western Burma and extending eastward more than 40 miles toward Thailand. The \$1 billion pipe is owned by Unocal, TotalFinaElf, a Thai company and a state-owned energy company in Burma.

There is little dispute that Burma's brutal military forced villagers to work in the vicinity of the pipeline, starting at least as early as 1995. At issue today is what role Unocal played in allowing the abuse to take place and whether it benefited from it—even if it wasn't directly complicit. In suits filed in California federal and state courts, human rights groups claim that Unocal both encouraged and gained from the nasty regime. To get the case into a U.S. federal court, the groups, including the International Labor Rights Fund, invoked the Alien Tort Claims Act, a 214-year-old law that gives U.S. courts jurisdiction over international acts of genocide, torture and slavery.

The pipeline carries gas from a 5.7-trillion-cubic-foot reserve discovered in the 1980s by the government-owned Myanmar Oil & Gas Enterprise. The gas company signed an agreement with the French company Total and American Unocal to build the pipeline. Allegations of abuse were no surprise in Burma, a Southeast Asian land of 48 million taken over in 1962 by a socialist military regime

that quickly impoverished the nation. In 1989 the military government, known as the State Law & Order Restoration Council, changed the nation's name to Myanmar, a name the U.S. doesn't recognize, and crushed attempts at democracy. Today the government regularly jails and tortures dissenters and uses forced labor and rape as management tools.

Security was an immediate concern in the pipeline area. Oil executives admit they liked having the military around, particularly when insurgents ambushed a group of villagers in 1995. But as the project got under way, the military increased its presence, and the companies began to hear accounts from villagers that soldiers had forced people to work in the pipeline vicinity. Company officials say they reacted responsibly to the reports, although they insist the abuses were unrelated to the pipeline. As a humanitarian gesture they provided financial and other aid to 300 to 400 individuals affected, and lobbied Burmese authorities to discontinue the practice.

Yet villagers say the forced labor continued until 1999. In court documents one villager claimed soldiers forced him to build a helipad used by Unocal and Total officials. Others say they were required to serve as "pipeline porters," workers who hauled materials and cleaned camps for soldiers guarding the pipeline. A woman claimed she was nursing her month-old baby when a soldier kicked her and pushed them into a fire. Soldiers then ordered her to relocate from their village. The baby died soon after.

One damning piece of evidence against

the companies comes from a cable from the U.S. embassy in Rangoon, describing conversation between a State Department official and Joel Robinson, a Unocal manager. According to the account, Robinson acknowledged that Unocal hired the military as security and met directly with the soldiers to inform them of its activities so the area could be secured.

Unocal and Total disavow the account. They say they did not contract with the military and communicated with it only through the Burmese gas company. The forced labor involved other projects in the region and had nothing to do with Unocal or Total. "It never happened in relation to the pipeline," says M. Randy Oppenheimer, a Unocal lawyer. "Nobody asked or coerced anyone to do any work for the pipeline."

In June a California Superior Court judge ruled Unocal could be "vicariously liable" for abuses committed by the Burmese military, which means the company could be liable for the government's actions even if it did not participate in



Rights groups claim investors in this Burmese pipeline are accountable for abuses. Companies like Unocal say they built schools and markets.

em. In March a state appeals court cleared the way for a trial in California.

Last September a federal court ruled Unocal could be liable for abuses if it aided and abetted them. The meaning of those words will be crucial. But the court found there was enough evidence that Unocal knew about and benefited from forced labor to go forward, noting in particular that the company held daily meetings to show the military where to provide security and build infrastructure, despite the knowledge it would probably be forced labor to do so. "The evidence also supports the conclusion that Unocal gave 'encouragement' to the Myanmar military in subjecting plaintiffs to murder, rape and torture," the court noted. Hearing reviewing this decision will be held in June.

The oil companies point out, and villagers agree, that life has improved significantly since the completion of the

pipeline in 1998. In a nation with a per capita gross domestic product of \$100, Unocal and Total contributed \$10 million in goods and services to the 40,000 people in the pipeline area. Health care workers have given 400,000 free consultations and vaccinations since 1997. Infant mortality has plummeted. "Now there's not much communication with the army," observed one village woman. "They seldom come."

The Unocal case may one day land in the U.S. Supreme Court. But it already serves as a sharp warning to U.S. companies doing business overseas. Two dozen similar cases have been filed against other U.S. companies. For instance: Plaintiffs in a Florida federal court allege that Fresh Del Monte Produce hired security forces in Guatemala that tortured and kidnapped labor organizers. The company did not return calls. Some lawyers are pushing the law to an extreme, arguing that companies

that do business in certain countries are liable for abuses—simply for having invested there. Suits are pending against Ford and Citigroup for doing business in apartheid-era South Africa, even if they neither participated in nor directly benefited from the government's abuses. Citi's offense? It made loans to South Africa.

These suits may be doing no favors for the Third World if they chase away multinationals and the jobs and capital they bring. The suits may also interfere with U.S. foreign policy. Last year the U.S. State Department intervened in a Tort Claims Act suit seeking damages from ExxonMobil for work in Indonesia, warning the suit could imperil counterterrorism initiatives. But the plaintiffs seem to have the upper hand legally. "Right now," says Brooklyn Law School professor Anthony Sebok, "the law does have the extraordinary reach its most radical proponents say it does."

F

DIRTY OIL

Change the administration in a place like Nigeria and ugly accusations bubble up to the surface.

BY SILVIA SANSONI

NIGERIA SITS ATOP 25 BILLION BARRELS of high-quality crude. But extracting the oil from the swamps of the Nigerian government can be messy. Nigeria ranks second (after Bangladesh) among the world's most corrupt countries, says Transparency International in Berlin.

Cozy ties between oil multinationals and the government (a partner in all ventures via the state-owned Nigerian National Petroleum Corp., or NNPC) make evidence of mischief hard to find. Until a deal goes sour—and the ugly process spills into view.

A botched joint venture between Royal Dutch/Shell Group and its Nigerian partner, Malabu Oil & Gas, has ended up in federal district court in New York City. Last August Malabu sued Shell, accusing it of colluding with Nigerian officials to snatch its juicy oil prospecting license, OPL 245, a giant block in the deepwater area of the Niger Delta, with estimated reserves of more than 1 billion barrels. The tiny oil concern wants \$1 billion in compensation to go away.

The ill-fated venture started in 1998, just before the collapse of General Sani Abacha's military regime. Early that year Abacha's petroleum minister, Dauzia Loya Etete, awarded himself a license to develop OPL 245 and set up Malabu as the license holder. (Though technically not an owner, Etete is widely believed to control Malabu.) After Abacha's dictatorship collapsed, the civilian administration of President Olusegun Obasanjo set up a panel to review oil licenses and revoked a number of them. But Malabu got to keep its claim.

In late 1999 Malabu offered Shell's Nigerian subsidiary 40% of the profits in exchange for bearing exploration and production costs. Soon after, the new government wanted a piece of the action, according to Etete. In a written deposition to



Flaring problem: natural gas fire in the Niger Delta; Nigerian Vice President Atiku Abubakar

Nigeria's House Committee on petroleum resources, which is investigating the charges, Etete claims to have dined in August 2000 with Vice President Atiku Abubakar who, Etete says, demanded a stake as a condition for not revoking the license.

In depositions Etete claims he has taped conversations of meetings he had with Abubakar's middlemen, discussing the payment of bribes to Abubakar, President Obasanjo and Shell managing director Ron van den Berg. Shell maintains it doesn't know who is on the tape. "Conversations between two people nobody has identified in no way establishes any link whatsoever with Shell's managing director," says Tony Okonedo, head of Shell's media relations in Lagos. (The parliamentary committee recently requested a warrant for the arrest of Van den Berg for failing to show up for questioning.) In late 2000, Etete alleges, he received a phone call from an agent of the vice president, asking him to sell Malabu's stake in the block. Etete refused, and in July 2001 the government revoked Malabu's oil prospecting license; Shell lost its stake, too.

Months later the government invited Shell and ExxonMobil to bid on OPL 245. Exxon reportedly offered \$40 million; Shell won with a \$210 million bid, securing 100% of the license. Malabu is crying foul. It says Shell's bid was based on insider knowledge of the block's huge reserves. "Until you start drilling you can't say for sure how much oil there is," says Donald Boham, Shell's

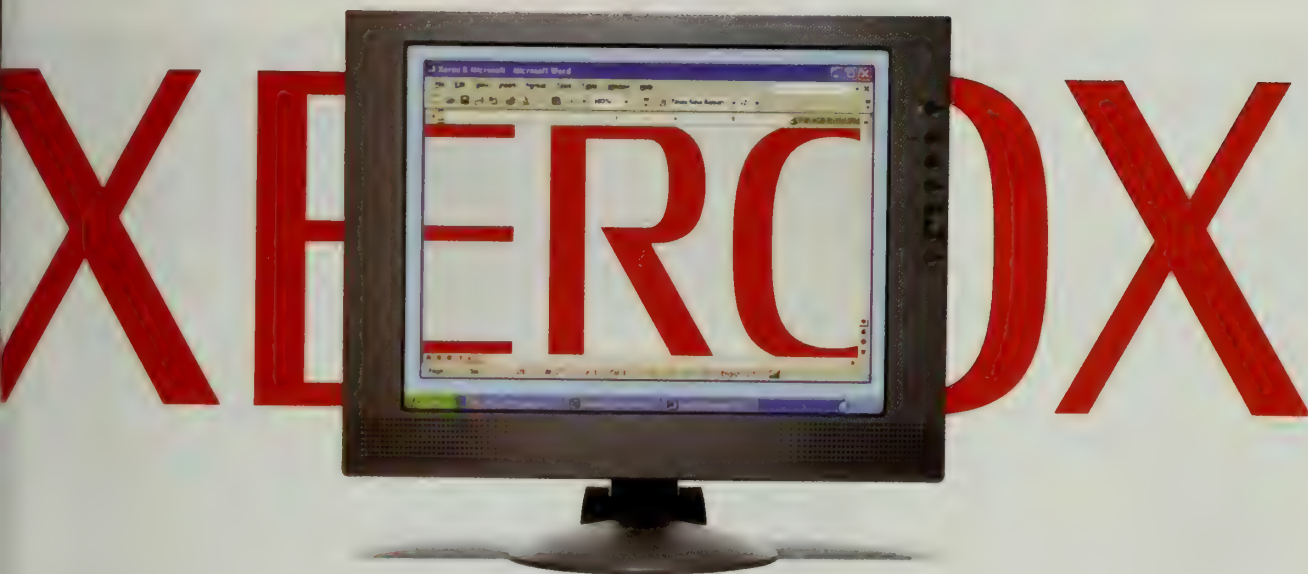
spokesman in Lagos, licking his thumb and holding it up to an imaginary gust of wind to make his point. "We bid on the block Exxon bid on it. We won."

Malabu accuses the president's men of improperly organizing the auction, a function that should have been carried out by the department of petroleum resources. Etete alleges that Shell wooed the vice president with oil services contracts for a company he reportedly has a stake in, Intels. In his deposition Etete claims to have taped conversations between agents of the vice president and Shell discussing such deals. Shell, says spokesman Okonedo, "has a well-established and transparent contracting policy and processes that include [government] supervisory involvement and approval at all levels."

How credible is Etete? The former oil minister in a notoriously brutal and corrupt government, he was known for keeping a couple of lions caged in his backyard feeding them two goats a day. Currently living in Paris, Etete is wanted by the Nigerian police, reportedly on money-laundering charges.

Shell hopes to settle the dispute via arbitration in London. "It's all speculation," says Boham, of Etete's charges. "The process of law will tease out the actual situation."

Maybe. Fire struck the NNPC offices in December, destroying many documents. Police are looking into arson. Given the history of past investigations into corruption this trail will probably go nowhere.



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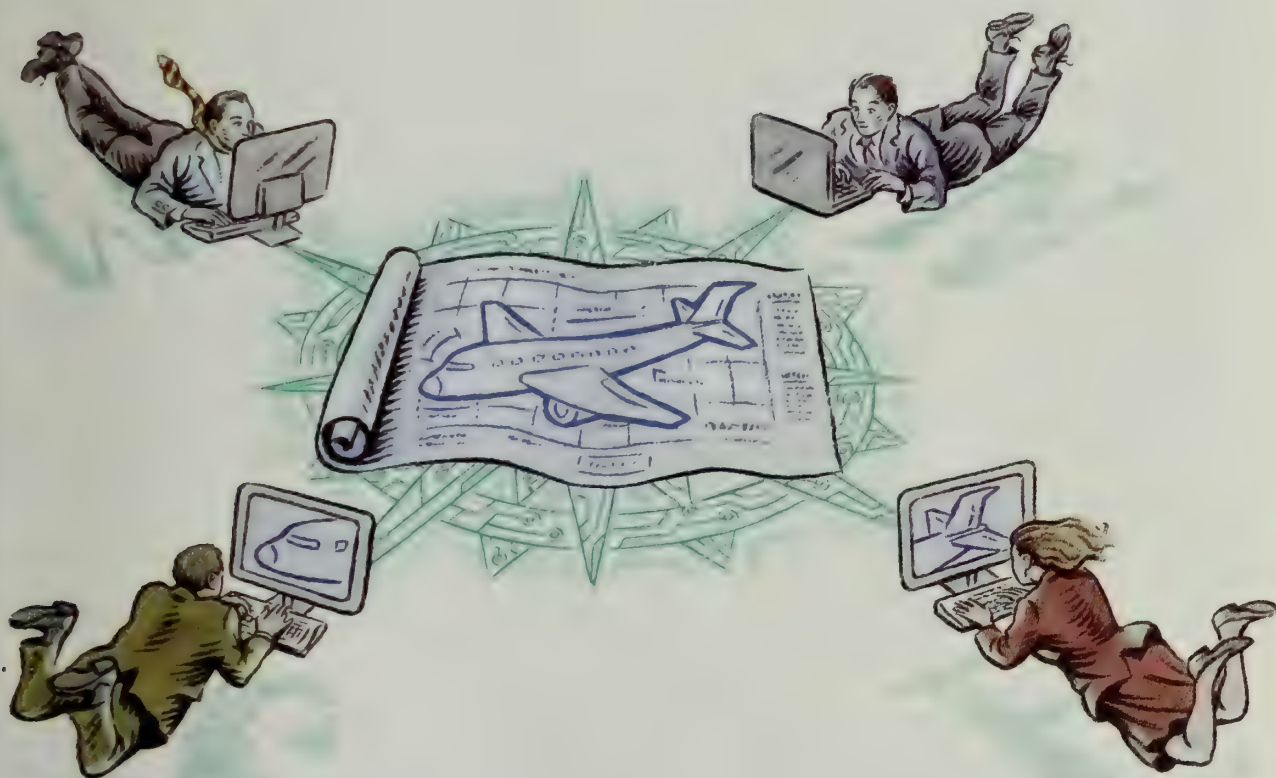


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A Safer Place to Meet

Web conferencing was once the butt of jokes. With technology getting better, travel budgets tighter and SARS scarier, it's worth another look.

BY NICOLE RIDGWAY



BRIAN BROUILLETTE, HEAD OF EDUCATION SERVICES AT HEWLETT-PACKARD, holds an hourlong "coffee talk" with his staff each month. The talks are a decades-old ritual started by company cofounder William Hewlett, meant to bring bosses and workers together in a congenial, open format. Hewlett used to do it in person, but times change. Now Brouillette chats over the Web, reaching half of his 80 global offices at once.

In last month's chat he PowerPointed his way through the division's sales goals and praised an employee who had recently won a patent. Employees instant-messaged Brouillette with questions and comments. Those who wanted anonymity typed their comments

Technology

on an icon of a yellow legal pad. "Information tends to get filtered by the time it gets up to me. This is a good way for me to get a pulse on what the heck is going on out there," says the 21-year HP veteran.

Web conferencing has come a long way since it was commercially introduced, to mostly disdainful reviews, in 1996. New software allows conferencers to work through once-impenetrable company firewalls. Transmissions are no longer so choppy, now that 87% of U.S. workers have broadband access. The awfully named "Webinar" is accepted as the norm at thousands of firms. Even the Ringling Brothers circus is using it to train ticket agents and scout out locations for the Big Top.

Also helping: The collapse in business travel that began with Sept. 11 continued with the war in Iraq and may get a depressing extension from the spread of the Guangdong pneumonia (SARS). Research firm Frost & Sullivan estimates the Webinar industry will rake in \$533 million this year, up 43% from \$373 million last year. WebEx, with 64% of the market, making it the leader in hosting Web conferences, turned its first profit on revenue of \$140 million in fiscal 2002, up 72% from 2001. In January Microsoft, which had a tentative foray into Web conferencing with a product called NetMeeting, paid \$200 million for WebEx archrival PlaceWare, a Mountain View, Calif. firm that saw customer usage climb 88% to 5.1 million hours last year. Microsoft will still offer NetMeeting as part of Windows, and PlaceWare will become the foundation of a new service-oriented division. "We're going to make it as easy for people to integrate [Web conferencing] into their business as e-mail," says Daniel Leach, a product manager for Microsoft.

Microsoft's move brought renewed attention to the group. "It's like we just got bumped from the little leagues to the majors," says WebEx Chief Executive Subrah Iyar. Their stocks, though, were left back. Shares of WebEx fell 21% to \$12 the day after the announcement. Competitors Genesys Conferencing and Raindance fell 10% and 30%, respectively.

IBM is also a player, thanks to its 8 million users of Lotus Sametime messaging software. With a few mouse clicks two employees chatting via IM can fire up a Web conference and share documents among a dozen or more colleagues. Telecom firms like Verizon, MCI and AT&T are also latching on by bundling Web-conferencing services into their offerings in hopes of retaining valuable business clients.

Exostar, an online aerospace and defense exchange founded by Boeing, Raytheon, BAE Systems and others, deployed WebEx so that engineers from around the world can work on, say, a blueprint for a crankshaft without having to FedEx it back and forth with every change. To cut down on Internet hiccups, WebEx transfers the engineers' data via its own leased fiber network.

Drugmaker Aventis uses PlaceWare's Web-conferencing software to inform doctors about the latest feedback on drug trials and to train its sales staff in everything from the efficacy of a new

► By the Numbers

Virtually There

While Web conferencing can't replace a handshake, it does help companies cut costs and gain peace of mind. Tough break for the travel industry.

\$663

Average domestic per-diem cost for a business traveler.

\$60

Cost of an hour-long Web conference using WebEx.

41%

Decline in airfare bookings to Asia at travel management firm Rosenbluth International since Mar. 1.

88%

Increase in hourly usage by PlaceWare customers last year.

Sources: Runzheimer International; WebEx, Rosenbluth International; PlaceWare.

drug to the side effects of Avandia. On top of that, PlaceWare's strong 128-bit encryption, Aventis ensure clinical data don't fall into the wrong hands by requiring user IDs and passwords. Information is deleted once the host logs off.

Software firm J.D. Edwards began using Web conferencing in 1999 to train its sales team. Since then usage has increased sixfold, to 18,000 hours a year. The return on investment has been immense, says Jeffrey Andersen, an IT manager at Edwards. One training effort that would have sent a trainer on a four-week tour of 17 offices at a cost of \$35,000 was turned into a day-and-a-half effort that cost \$5,000 using the Web.

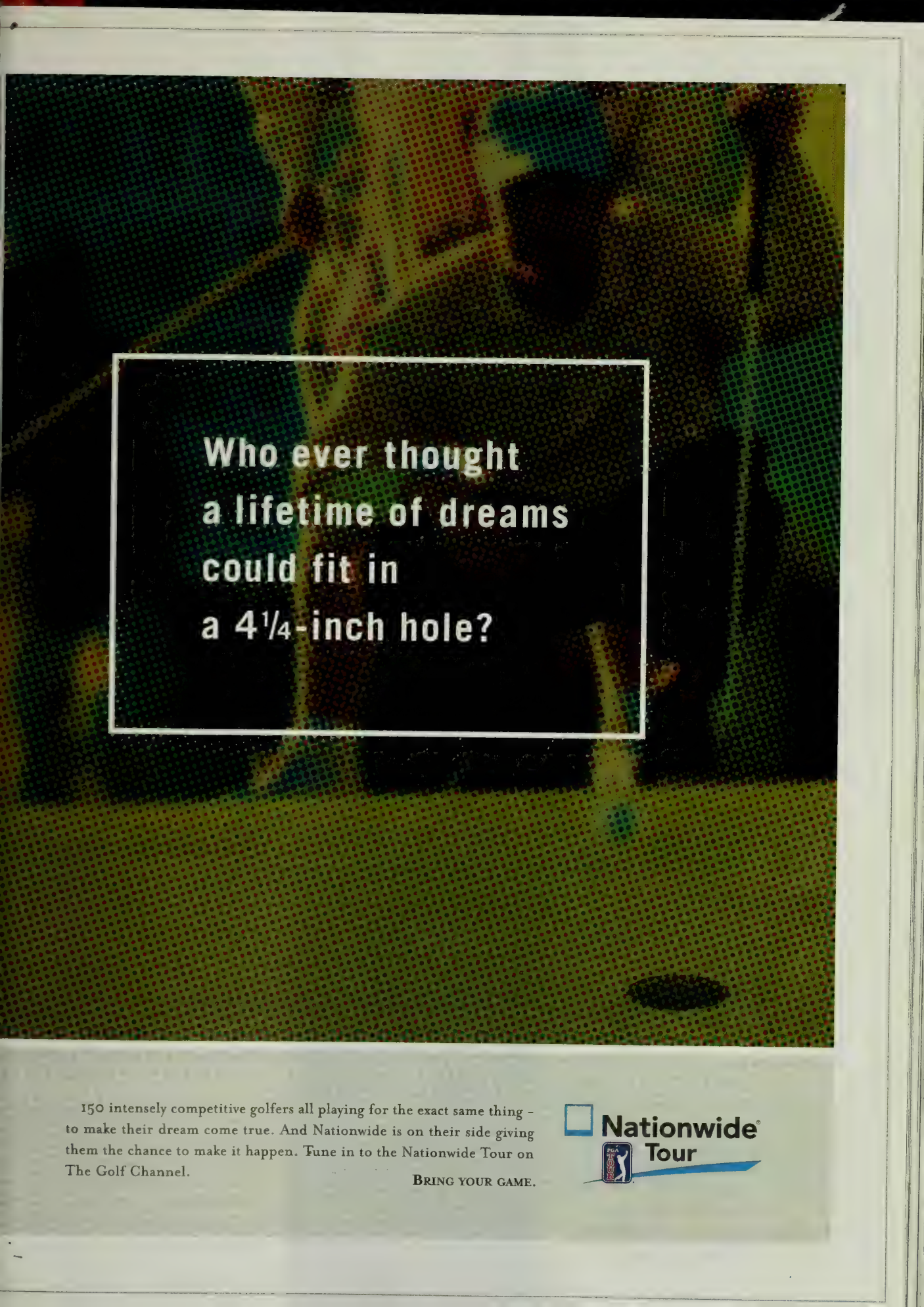
HP built its own Web-conferencing service, Virtual Classroom, around PlaceWare's technology. Brouillette's staff use it to remotely train some 200,000 students a year on everything from software upgrades to developing operating systems. Questions are asked through chat sessions or virtual Post-it Notes, complete with icons of raised hands. Presentations can be downloaded into desktop applications like Excel for later review.

For all its tricks, Web conferencing has yet to make voice transmissions truly intelligible. The technology exists, but band-

"This is a good way for me to GET A PULSE on what the heck is going on out there."

width constraints make speaking through a PC akin to using a walkie-talkie. So a traveling salesperson in an airport lounge is still forced to juggle cell phone and laptop while conferencing on the road. "Voice-over IP [Internet Protocol] is the missing link that's going to pull it all together," says Andrew Nilssen, an analyst at Wainhouse Research.

Once this kink is worked out, WebEx and its rivals hope their services will become as reliable and convenient as a phone call. WebEx was confident enough in that promise to launch, in January, an \$8 million ad campaign starring Lily Tomlin. At the kickoff party in New York Tomlin took the stage as her telephone operator alter ego, Ernestine, and confidently christened (with piggish chortle) WebEx's service "the new ringy-dingy."



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WIRELESS

Not-So-Dumb Phones

Until now cell phones have done a rotten job of handling data. Is a breakthrough near?

BY CHANA R. SCHOENBERGER

EXCEPT FOR TEENS AND GEEKS, THE masses are simply not buying Web phones. The first attempt to condense Web pages onto cell phones, a technology called wireless application protocol, or WAP, was met with a shrug. Not even 1 in 12 of the phone customers with WAP-enabled handsets ever bothers to browse the Web using WAP's torturous menus. A stranglehold of proprietary technology, slow phone networks unsuited to Web data and a paucity of applications conspired to make WAP irrelevant.

Worldwide, carriers get 10% of their revenue from data. In the U.S. it's more like 4%. If those data minutes don't start climbing fast, carriers will have no chance of recouping the tens of billions of dollars they've spent on radio spectrum for the data. They need to sell lucrative services such as mapping, telephone directories and breaking news. To do that they need to make browsing less painful.

Palm-style gadgets combining the computer with the phone, such as the Handspring Treo and Pocket PCs, are Web-friendly, but their market is too small to make the cell carriers prosperous. Only 3 million people use wireless Palm-style devices; 165 million use cell phones.

A glimmer of hope comes from Orange, the largest carrier in the U.K., with its slick new SPV (stands for Sound Pictures Video). Orange has sold 50,000 of these smart phones in the U.K. since the fall and aims to sell 1 million similar phones by year-end. The success of the \$160 phone, made by HTC Corp. with Microsoft's Smartphone 2002 operating system inside, is attributable to ease of use. The SPV elegantly knits phone and data functions onto one screen that works like a Web portal. Orange says 75% of SPV customers use the portal and that three out of four like it. Rather than stay online for your data and pray you don't get cut off,

the phone uses software from a Redmond, Wash. firm called Action Engine that gets the data you need in bursts, allowing you to save on data charges and always have recently used info at your fingertips. Type in the name of that boîte you're looking for and the phone gathers its location, phone number and a map to find it from the Web. Once you're offline the address is stored in the phone's directory and you can easily parcel out the data to your calendar, to-do lists and e-mail.

"We're making it transparent to the user, whether the thing they're trying to do is happening online or on the handset," says Matthew Bacon, Orange's senior product manager for smart devices. Orange gets a better-than-average 11% of its revenue from data, but Bacon is banking on devices such as the SPV to boost that to 25% by 2005.

Kinks still need working out. Microsoft devoted three years, 600 software engineers and \$250 million to develop Smartphone 2002. Yet a simple

task like beaming a business card between phones still takes six taps. The same task requires nine taps using Symbian, an operating system adopted by a consortium including Nokia, Motorola and Sony Ericsson. "This is the first time in my career that the hardware is way ahead of the software," says William Miller, a partner at OVP Venture Partners in Kirkland, Wash. Miller has put \$13 million into Action Engine, which has raised a total of \$35 million.

The software engineering problem is in replicating our interaction with PCs in a tiny gadget. Deutsche Telekom's T-Mobile unit has had modest success with the Sidekick, a combination data phone and digital camera out since October. About the size of a pack of cigarettes, it has a lid that swivels around to reveal a keyboard and a horizontal screen for Web-page widths. Designed by a privately held firm called Danger in Palo Alto, Calif., the Sidekick features a wheel you can scroll and push to navigate menus, rather than a clumsy number-key system.

Addressing the tiny-screen problem, a young company from Cambridge, Mass. GeoPhoenix, has developed a piece of software that creates the experience of swooping down over a large image to magnify one section, such as a day on a calendar. The software, which works on both Web pages and mobile-device menus, was included in the launch of Sony's new Clié handheld last fall. GeoPhoenix says it is in talks with other vendors. Vega Vista of Mountain View, Calif. is lining up Asian customers for a chipset that uses three motion sensors inside a phone to allow a user to navigate by waving the device around. The screen acts like a magnifying glass, moving over a larger page, such as a map or Web site.

Now if they can only find a way around the tyranny of tiny buttons.



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THE O GROUP, INC. Forbes

by Stephen Manes

Inkjets to Go

WHAT'S MISSING ON BUSINESS TRIPS? HOME COOKING and a computer printer. Bare-bones portable inkjet printers have been around for years for text in a pinch. The idea behind the newest ones is to make them so much like their big brothers that you could use one for your everyday machine. But after testing Canon's i70 and HP's Deskjet 450, I suspect you may not want to.

At \$300 each, these units cost twice as much as deskbound counterparts. Though they occupy small footprints, neither has an output tray, so you have to leave extra desk room for the printed pages. And these babies are heftier by a pound (or more) than many portable computers: With its AC brick, the Canon weighs 4⁵/₈ pounds; the HP, 5¹/₈. You can leave the brick at home, at least on short trips, if you spring for an optional rechargeable battery; HP's costs \$50; Canon's, \$100.

The HP's input tray holds about 45 sheets of plain paper; the Canon's, just 30. Both were finicky about loading. They print text at about the same pace, roughly three minutes for a mostly black, eight-page text document with color subheads, but the Canon was much faster with photos. At its best setting, the Canon printed a full-page photo on glossy paper in about five minutes; the HP, a sluggish eight and a half. And the HP printer requires you to swap in a special ink cartridge to get the best images; the Canon does a good job without that annoyance. The HP always leaves white margins around photos; the Canon can produce attractive borderless prints. And the HP repeatedly put ugly vertical streaks in prints of an image that printed out perfectly on the Canon.

Neither unit comes with the USB cord you will probably need, though HP includes a short parallel cable. But these printers can go totally wireless if you use the infrared port to transmit images from your notebook. Alas, getting infrared to work with the HP required tweaking the computer in a way not mentioned in the documentation. IR worked fine with the Canon on a text file, but I couldn't coax it to produce a photo. Besides, maneuvering the IR sensors on a PC and a printer to see each other can be an exercise for a contortionist. The HP can be connected wirelessly with a Bluetooth Compact Flash card, but since it costs about \$100 extra to add that substitute for a cheap cable, I didn't bother to test it.

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The Canon can print photos without a PC, taking the images directly from many recent Canon cameras via a USB cable. The HP has a slot to read Compact Flash cards from many recent cameras, but couldn't get it to print from memory cards when the computer wasn't connected. Limited control over paper and output makes these features

only marginally appealing, anyway.

HP's attention to quality seems to be slipping. The cover stays closed thanks only to the friction of a single plastic dimple. Documentation is awful; links on help screens take you to Web pages that don't deliver the info they promise. Inadequate instructions made a software update extremely tricky to install. And it didn't fix the software driver's maddening inability to cancel a print job without a complete computer reboot.

If you really need a versatile portable printer, pick the Canon. Just don't expect it to be as satisfying as a home-cooked meal or your trusty inkjet at home.



Forbes

Stephen Manes (steve@cranky.com) was cohost of Digital Duo and has been covering technology for two decades. Visit his home page at www.forbes.com/manes.

MICHIGAN

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PART IX in a SERIES

Focus on Business Retention: Michigan Economic Development Corporation Keeps In-State Customers Happy and Growing



by Vickery Eckhoff

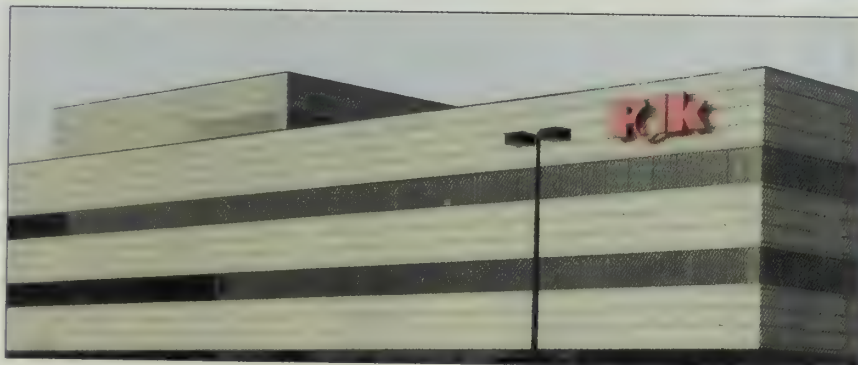
Great service, 24/7 — it's an easy promise to make, harder to fulfill. But keeping business customers satisfied all time is exactly what the Michigan Economic Development Corporation (MEDC) has been doing since retooling its business retention efforts in the early 1990s.

Faced with a number of in-state businesses being wooed away from other states, the MEDC developed an account management system with 21 managers who are dedicated to visiting the business community, meeting its needs and building relationships. The result: a record number of new business developments and jobs for six years running and a near-perfect customer satisfaction rating of 99%.

The program provides the assistance and incentives companies need to stay right where they are. Altogether, MEDC's account managers visit more than 5,000 in-state businesses each year, helping them with site selection, one-stop shopping for environmental permits, workers' compensation issues, abatements and more.

The aggressive program more than pays for itself. In 2001, Four Winns boats used a single business tax credit from the MEDC to reopen and expand operations in its home base of Cadillac rather than move to Sarasota, Fla. The move would have enabled Four Winns' parent company to generate a substantial annual savings but have a devastating impact on Four Winns' experienced work force in northern Michigan.

There's a heart and soul to a boat company, and Cadillac is as much a part of our Winns as Four Winns is part of Cadillac. Plus, we have an incredible work force that we would not be able to duplicate in the South," states Four Winns President John Anderson.



Above: With MEDC support, RL Polk chose Southfield over Cincinnati as the place to consolidate its data operations. **Below:** State assistance enabled Four Winns Boats to keep its facilities in Cadillac and preserve 535 jobs.

To avert a move, Anderson met with MEDC officials and, just days later, applied for a tax credit. "Never in my wildest dreams would I have believed that a state government or even the MEDC and the state of Michigan could move that fast," says Anderson. Within two months, the company had received an incentive package to convince it that Michigan rather than Florida was the place for Four Winns. This quick thinking protected 535 Michigan jobs and persuaded the company to invest more than \$17 million into the facility.

Automotive information solutions services provider RL Polk decided to merge its data operations in Southfield from offices in Cincinnati, thanks to MEDC assistance. "The end result of the MEDC's retention efforts was the company consolidating into Michigan and creating up to 300 new high-paying jobs. "I really applaud the MEDC on what they were able to do," says Stephen Polk, the company's chairman, president and CEO.

Training assistance and a quick call to action helped persuade Flowserve Corporation to expand in Michigan, adding up to 100 jobs. Flowserve Corporation, provider of industrial flow



management services, decided to expand its existing Kalamazoo site rather than another out-of-state location. "By providing additional training for our people, the Kalamazoo site was selected over another one to be our major site for the manufacturing of mechanical seals in the U.S.," says Bill Adams, vice president of marketing and technology for Flowserve's Seal Division.

Until the MEDC stepped in, there was no guarantee Michigan would be selected. "It gives business a competitive advantage," says Adam. "It's efforts like that from the MEDC that attract and keep businesses in the state of Michigan."

For more information, contact the Michigan Economic Development Corporation at 800-946-6829 or visit www.michigan.org.

AT 5:30 A.M. AT THE FULTON FISH MARKET IN DOWNTOWN Manhattan, Joseph Gurrera slides from the soft leather of his black Jaguar and strides past a row of beat-up Toyotas and Nissans lit by a trash-can fire. Forklifts whine and slalom between boxes of bass and snapper. Stocky merchants in layers of shirts stained with scales and blood hawk their fish. "Hey!" one of them shouts when Gurrera walks by. "It's Joey Citarella! How ya doin', Joe?" Kisses and handshakes follow.

Gurrera is the local boy made good. An immigrant fishmonger's son, he started wrapping flounder in newspaper when he could barely reach the counter. Now he may be the biggest fish in town. At 48, he owns Lockwood & Winant, a national wholesale business, the Citarella chain of five gourmet stores, as well as a midtown restaurant by the same name and a Web-based food business. He employs 550 food-handlers, cooks, clerks and executives. Last year he netted \$5 million-plus on \$150 million in sales.

His model, he claims, wasn't his dad, who sailed from Sicily to Bensonhurst, Brooklyn after World War II and made enough at his small seafood shop to put Joe through St. John's University. It was Tony Marotta, a trader who always strolled through the market in a long white coat and matching cap, dressing nattily in suits by night. Marotta taught him the tenets of the trade: high standards, attention to detail and toughness. "Once you settle for mediocre, they will sell it to you every time," Gurrera summarizes.

While pushing his dad's fish in the late 1970s, Gurrera caught a break. Chef Wolfgang Puck, visiting from California, saw his wares and placed an order. Gurrera hopped a \$99 flight to Los Angeles and delivered the fish himself. Soon he was shipping several thousand pounds of seafood a week to the West Coast.

His dad wasn't impressed—and the two had a falling-out over different ideas of running the business. "I started putting money on the books, and my father was more of a cash guy," recalls Gurrera. By the time he walked away in 1983, he had his eyes on his own place. His father closed shop a few months later.

Gurrera bought a store called Citarella on Manhattan's Upper West Side. Plunking down \$100,000 from his savings, and paying off the \$450,000 balance in promissory notes at \$2,000 a week, he replaced sawdust floors with granite and created camp window displays out of fish. By 1985 he was grossing \$3 million.

Next move: hooking a wholesale business. There he confronted a market with strong ethnic divisions—most wholesalers were Jewish; the buyers and market hands, Italian-Americans. So he partnered with Abe Haymes in his company Lockwood & Winant. "He was tough, fair and honest," says Haymes, now 85 and retired. (Gurrera bought him out in 1990 for \$600,000.)

Haymes had a modest stake in the soft-shell crab and shad business; Gurrera decided to corner the market. He would, for example, pay suppliers 50% above the going rate of \$16 for a dozen

crabs. The next day he'd lock up supply and sell up to 2,000 boxes of crabs—40 times what Haymes used to sell—at \$28 a dozen.

A March 1995 fire at Fulton's Tin Building disrupted Gurrera's wholesale business, one of several there, causing \$200,000 worth of damage. The timing was suspicious—just as the city was introducing Local Law 50, which would require background checks and registration of all fish market workers. The Tin Building was already negotiating with the city, says Randy M. Mastro, then-Mayor Rudolph Giuliani's chief of staff. "It was arson, for sure," says Mastro. "They found evidence of accelerants." No one was ever charged in the case. Gurrera insists his business had nothing to do with the Mob, which once controlled the loading and unloading of fish. "Nobody has ever forced us to do anything," he says.

In any event, Gurrera shifted his focus to Citarella, broadening its reach. Since most New Yorkers preferred red meat to red snapper, why try to proselytize? Hiring the former meat buyer and chef from Balducci's, once the Tiffany of gourmet food in New York

Big Fish

Learning tough lessons as a kid, **JOE GURRERA** turned his corner seafood store into a \$150 million gourmet enterprise.

BY TOMAS KELLNER

Gurrera expanded into meat, produce and prepared foods. Sales jumped from \$6 million in 1992 to \$25 million in 1996.

Gurrera kept right on growing. By 2002 he'd opened an additional Manhattan store (as well as a 50,000-square-foot commissary to prepare foods) and two stores in the Hamptons on Long Island. A four-story Citarella restaurant near Rockefeller Center opened in 2001, staffed by Brian Bistrong, former *chef de cuisine* at Bouley and Bouley Bakery, and their pastry chef William Yosses.

Last winter Gurrera hauled in a big catch—winning a bid for Balducci's shuttered Greenwich Village store over rival Dean DeLuca. "He was very intense," says Sandeep Mathrani, executive vice president of Vornado Realty Trust, which owns the property. It didn't hurt that Mathrani already knew Citarella as a customer.

The newly renovated store opened for business this month. Recently Gurrera was pulling up rusted water pipes, telling a Russian worker how to cut a hole in the sheetrock and arguing about the height of window displays. Gurrera shrugs. "I think a lot of things are simple," he says. "People just make them harder."



Errand Boys

Thomas Buettgenbach and Howard Katkov handle your dry cleaning and car repair so you can put in more hours at work. That's the plan, anyway.

BY DANIEL LYONS

IT WAS AN OLD IDEA BY THE TIME Thomas Buettgenbach got around to it: concierge services for busy employees. PepsiCo, for example, tried and dropped the service; Best Upon Request survived, but it has had a tough few years. Buettgenbach was going to do it bigger and better.

His Dock-3 (as in loading dock) sets up shop inside large companies and runs errands for employees so they don't skip out of work during the day. You can call on his service to rent DVDs, send and receive packages, drop off dry cleaning, pick up shoe repairs, even arrange to have your car washed and serviced. To get a foot in the door, Dock-3 teams up with companies that run corporate cafeterias.

So how come, after two years, Dock-3 has landed only nine clients—and lost an estimated \$2.5 million on sales of \$500,000 for the fiscal year ended Mar. 31? “These are big bureaucracies,” grumbles Buettgenbach (pronounced BOOT-gen-bock), executive vice president of the Solana Beach, Calif.-based outfit. “It can take six months to get a permit to put a screw in a wall.” Say this for him—he's raised nearly \$8 million in venture funding (for an undisclosed share of Dock-3).

Everyone remembers those Web-based delivery fiascos, Kozmo and Webvan—which raised hundreds of millions of dollars, then exploded. Buettgenbach, in fact, ran one of those dot-bomb outfits, called PassionFood.com, delivering exquisite edibles and like fare to your doorstep. PassionFood.com grew out of an earlier venture, Bach, a gourmet chocolatier. “The whole

dot-com area was going crazy, and I wanted in,” he says. PassionFood.com died in 2000. But before its corpse was cold, Buettgenbach had set about launching Dock-3.

You'd think he'd know better. The 38-year-old from Cologne, Germany holds Ph.D.s in both physics and astronomy from the California Institute of Technology. He also spent four years at McKinsey & Co. before running off to switch on Bach. “My parents are still wondering what this has to do with what they sent me to school for,” he says. “But I'm an entrepreneur at heart.”

This time, he insists, it will be different. The key is low costs. Unlike Web delivery

companies, Dock-3 doesn't invest in trucks or warehouses. It pays the company nothing for a counter near its cafeteria, staffing it with employees from its food service partners, like Sodexo and Aramark. “We don't pay rent, we don't pay utilities, we don't pay labor,” says Howard Katkov, who ran Sassaby/jane Cosmetics, which sold mainly to teenage girls, before joining Dock-3 as chief executive.

Instead the company negotiates wholesale deals with neighborhood merchants, then charges customers full retail price, collecting a markup of about 20%. Dock-3 shares its cut with the food service company that opens the door to the corporate account, typically giving up about 20% of its take. Buettgenbach has also struck deals with 220 online retailers, including Amazon.com. (Go to Dock-3's Web site and order a book from Amazon, which sends it to the Dock-3 counter at your office.) Amazon's discount to Dock-3: 6%.

This could be a huge business. As Katkov points out, there are maybe 15,000 potential locations for Dock-3—businesses, universities and health centers in the U.S. Alas, he can afford only two full-time salespeople to work through the prospect.

Early customers—among them, the University of Connecticut Medical Center, Perc Systems and Veritas Software—love the service. “People were really excited about it,” says Lisa Mars, a senior vice president at Computer Associates. The software giant has signed up 1,600 of the 2,600 employees at its Ilandia, N.Y. headquarters.

Which makes Katkov giddy. Dock-3, he says, is close to signing 20 new accounts and hopes for \$3 million in sales this year. Supposedly it will turn a profit by 2005. If not, he can always go back to selling eye shadow to teens—and Buettgenbach, stargazing.



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FPA Capital's Bob Rodriguez with his \$1,000 helmet.

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Don't Be Cheap

Racing buff Robert Rodriguez pays up—when he must—to get the best Porsche or oil stock.

BY JAMES M. CLASH AND WILLIAM HEUSLEIN

SWIRLING DUST MIXES WITH EXHAUST FUMES AND oil as expensive sports cars roar around the Las Vegas Motor Speedway. Wealthy owners are behind the wheel, striving for some weekend glory. There are doctors, lawyers, executives—amateur racers from all walks of life. Speeds on the straightaways approach 150 mph. At the finish line, the checkered flag waves for ... FPA Capital Fund manager Robert Rodriguez, one of the Porsche Owners Club's top-ranked racers.

If you want to win races, Rodriguez will tell you, you have to pay for quality vehicles. The same goes for investing, where his

stock picking has produced an enviable record since he took over the First Pacific Advisors fund in 1984: Its 16.7% compound annual return since then handily beats the S&P 500's 12.6%. His fund was in first place on the Forbes Honor Roll last year. It also earned A grades for both up- and down-market performance in the recent Forbes fund survey. He has twice been named Morningstar's Manager of the Year, in 1994 and 2001.

To Los Angeles-based Rodriguez, an investor shouldn't skimp on either P/E's or Porsches. Rodriguez, 54, who has been racing the circuit since 1995, owns top-of-the-line Porsche's from the GT series. Where many racers are content to protect

their skulls with \$300 helmets, Rodriguez insists on the primo \$1,000 Stand 21 version. "Hey, that's your head in there," he says. Same with his safety belts. Instead of the minimum requirements, he opts for a Schroth model harness system used by the top Indy and Formula One drivers.

At his mutual fund, a cross between small- and mid-cap value, he goes for the pricier Enco International (trailing price/earnings multiple: 61) and National Oilwell (25) instead of rival offshore oil service companies FMC Technologies (20) and Offshore Logistics (11). Reason: The cheaper ones have large investments in deepwater areas, which Rodriguez believes won't maximize capacity as much as those in shallow-water areas. So profitability should be substantially higher for Enco's and National's shallow-water projects.

Rodriguez likes the energy sector (now 11% of the fund), particularly oil service companies, because he thinks oil prices will stay above \$20 a barrel even if Iraq starts pumping more oil. He also likes the fact that the natural gas supply in the U.S. has been dropping steadily over the last several years.

Sounds as if Rodriguez is just agreeing with the market's judgment on these stocks. And isn't that exactly how a lot of go-go 1990s managers crashed, chasing after ever-richer shares? Well, bear in mind that Rodriguez cares as much about value as growth, and indeed his portfolio's average P/E is a below-market 14. But he doesn't just buy the cheapest stocks. Rodriguez will buy up for what he perceives as exceptional quality. He looks for sector leaders that have the octane to stay that way. And if a stock gets too high, he will sell it and take profits, sometimes buying it back when the price dips again.

"Most value managers look for what can go wrong rather than right," he says, trackside at Las Vegas.

A few other value managers have similar views on price. William Miller of Legg Mason Value Trust, for instance, recommends Ebay, even at its recent 101 times earnings. After all, \$10,000 invested in Microsoft when it went public in 1986 would be worth \$2.6 million today—and the software maker's current P/E (28) has always had a multiple higher than the market's, as measured by the Value Line index.

Rodriguez has none of his \$600 million FPA Capital portfolio in software, but he does like technology (it's his second-largest sector), and is willing to pay for it. One sizable holding is Hutchinson Technology, which makes components called suspension assemblies for disk drives. Sporting a multiple of 25 times trailing 12-month earnings, the company saw revenue dip 1% in its September fiscal year to \$391 million, while it eked out \$15 million profit after an unprofitable 2001.

Rodriguez has good reasons for preferring Hutchinson to its cousins, such as disk-drive maker Seagate Technology. The much-talked-about Seagate went public again last year (after a leveraged buyout took it private in 2000), when sales reached \$600 million and earnings came in at a tidy \$153 million, also after a negative 2001. Seagate, with a P/E of 11, is cheap. Yet Rodriguez likes it that Hutchinson has a 60% market share in its disk-drive

components; Seagate has a 25% share for complete disk drives.

Retail is FPA Capital's largest sector, with 23% of the fund there, because Rodriguez feels it has been hammered. He has been buying steadily in retail and other sectors since January, winding down his cash position from 22% then to 10% now. But he is choosy: Specialty retailers like Big Lots (P/E: 17) and Michaels Stores (12) are in; the cheaper Federated Department Stores (9) and Sears (5) are not.

Why? Aside from poor fundamentals, Rodriguez says mass department stores have little room for growth. He prefers spe-

"Most value managers look for what can go wrong rather than right."

cialty retailers, especially discounters that lead their niches. But his choices here tend to be pricier too, even within their niches. Discounter Big Lots, which specializes in closeout merchandise—stuff other retailers can't move—has a coast-to-coast presence that is more attractive than the more rural-oriented Dollar Tree Stores (P/E: 14). The same goes for arts-and-crafts leader Michaels Stores, which can run national TV ads that the likes of Party City (10) cannot.

As a money manager with an annual turnover averaging just 18% over the past decade, Rodriguez is by nature picky when adding names to his portfolio of 35 stocks. Michaels Stores, for example, came onto FPA's radar screen in 1992, but Rodriguez didn't buy until 1996, when veteran retailer R. Michael Rouleau, a man Rodriguez respects, was made chief executive. Now Michaels is FPA Capital's largest holding (5.8%).

Rodriguez isn't immune from mistakes. In 2000 and 2001 he increased his stake in troubled insurer Conseco. He became convinced it was ripe for a turnaround. He was wrong, and became obsessed to the point where it distracted him from running his fund. He finally woke up and sold the turkey last summer.

FPA Capital has a very reasonable expense ratio, 84 cents per \$100 of assets. The drawback: a maximum 5.25% upfront load (the load declines for larger purchases). Rodriguez's defense of the sales charge: "Like I said, sometimes you have to pay a little more for a quality product." If you don't want to pay that much, you can at least follow his ideas on the track. **F**

Top of the Line

Despite his value views, FPA Capital's Rodriguez will opt for higher-multiple stocks in a sector if they promise better performance long term. As in racing, he prefers industry leaders.

Company	P/E	Recent price	52-week high
Big Lots	17	\$11.19	\$19.90
Enco International	61	25.80	35.50
Hutchinson Technology	25	25.89	27.70
Michaels Stores	12	24.60	49.33
National Oilwell	25	22.52	28.81

Prices as of Apr. 1. Sources: FT Interactive Data and Muxtel via FactSet Research Systems.

Pay for Performance

Is your fund manager confident enough in his or her abilities to put the management fee on the line? If so, that's a reason to buy the fund.

BY IRA CARNAHAN



Money on the line:
John Montgomery.

NANCY NEWBERRY FOR FORBES

OVER THE PAST FIVE YEARS BRIDGEWAY Aggressive Investors 1 fund has returned an average 13.3% a year, 17 points better than the moneylosing S&P 500. It wasn't only the customers who profited from its stock picks. The operator of this fund gets a performance bonus, performance being measured not by absolute returns but by whether it beats the S&P 500. Last year, when the fund lost only 18% compared with

a 22.1% loss for the index, its total expense ratio—based on five-year performance—was 1.8% of assets. If the fund had simply matched the market over that period, it would have collected 1.1%. If it had underperformed, fees could have dropped as low as 0.4%.

"This heavily aligns our interests with those of the shareholders," says John Montgomery, 47, who started Houston-based Bridgeway Capital

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Management in 1993 to exploit the quantitative methods he developed while studying engineering at MIT and business at Harvard. He later experimented with these techniques on his own portfolio.

It makes sense. Why shouldn't a money manager get paid more for doing a good job and less for doing a bad one? A new study in the *Journal of Finance* confirms that intuitive appeal. Professors Edwin Elton and Martin Gruber of New York University and Christopher Blake of Fordham conclude that, on average, incentive-fee funds return one percentage point more a year than similar funds without the fees. Interestingly, they also find that funds with incentive fees charge lower fees on average than other funds, which is one of the reasons they outperform.

Yet incentive fees remain rare. Only 4% of stock funds, holding 14% of fund assets, charge incentive fees, Lipper reports. For bond funds, assets managed under incentive fees are less than 1% of the market.

One thing going for the investor in a mutual fund with an incentive fee: Under federal law, the fee must be symmetric. If the fund gets a 0.5% bonus for beating its benchmark by 2 points, it must also drop its fees by 0.5% if it lags by 2 points. This is not so for the hapless customer of a private hedge fund, who is typically expected to cough up 20% of gains in winning accounts but gets no help when he loses money.

When they can lose as well as gain from a performance fee, money managers tend to be restrained in how much exposure they are willing to bear. Rarely does an incentive formula award (or subtract) more than 1% of assets. Fidelity Magellan, the biggest incentive-fee fund, charges a base fee of 0.78%, which it then adjusts up or down by at most 0.2 percentage points, depending on how it does compared with the S&P 500. Still, that fifth of a point adds up; from fiscal years 1997 through 1999 Magellan's lagging performance cost Fidelity more than \$300 million.

The table shows some well-performing incentive-fee funds. A more complete listing of incentive funds is available at Forbes.com. Here are points to consider.

Fund size and style. When a fund doesn't charge an incentive fee, the only way it gets paid more for superior performance is by attracting more assets. But with more assets, it's tougher to buy stocks without driving prices up or sell without driving prices down. That puts interests of shareholders at odds with those of the managers. Fund companies that collect incentive fees, in contrast, can do well without ballooning. Incentive-fee fund operators, including standouts Numeric Investors, Bogle Funds and Bridgeway, are often more willing than competitors

to close their doors to new investors. Bridgeway closed Aggressive Investors 1 in 2001, when it reached just \$275 million in assets. (Aggressive Investors 2 is still open.) This willingness to close makes incentive fees particularly attractive in small- and mid-cap funds, where large size is more of a handicap.

Who's really managing the fund? For reasons that aren't entirely clear, incentive-fee funds that are managed internally

outperform by a greater margin than do those with external managers. International stock funds with internal managers and incentive fees, for example, outperform international funds without incentive fees by 2.2 percentage points, while international funds with incentive fees and external managers outperform by just 0.9 percentage points, the study by Elton, Gruber and Blake finds.

Fund family size. The presence of an incentive fee is a sign that managers are willing to put their money where their mouths are. It's an especially strong signal at small fund families. That's because big, well-capitalized fund firms can better absorb the hits to revenue that lagging performance combined with incentive fees can bring, especially if just some of their funds offer incentive fees, notes University of Connecticut finance professor Joseph Golec. So an incentive fee is likely to be less revealing at a big firm like Fidelity than at a small one like Bridgeway.

Incentive fees may also be a stronger signal at publicly traded fund companies than at privately owned fund companies. That's because inconsistent returns combined with incentive fees can lead to ups and downs in quarterly earnings, which investors in public companies don't like. A publicly traded company that adopts incentive fees anyway is displaying confidence that its fund managers can deliver consistently. Unfortunately, most publicly owned fund companies that offer incentive fees—such

as AIM Investments, Eaton Vance and Scudder Investments—do so on only a small share of their funds.

What's the benchmark? About half of incentive funds use the S&P 500 as a benchmark to calculate their fees. Yet many of these funds invest in small stocks. So whether the fund earns an incentive fee may be more a function of whether small stocks are in style than a function of managerial skill, warns the Elton-Gruber-Blake study.

Watch out for rip-off fees. Remember, a big advantage of incentive-fee funds is lower average cost. Obviously, not all incentive fees are worth paying. Granum Value starts with a base fee of 2.5%, which then adjusts up or down by up to 0.75%. With a fee structure like that, notes Morningstar's Russel Kinnel, "shareholders know that expenses can range between expensive and obscene."

Paid for Results

The following funds, all with standout records, charge more when they beat their benchmarks and less when they lag.

Fidelity Contrafund

1-YR PERFORMANCE	5-YR AVERAGE ¹
-12.0%	1.1%
BASE FEE	MAX INCENTIVE FEE +/-
0.80%	0.20%

Fidelity Low-Priced Stock

1-YR PERFORMANCE	5-YR AVERAGE ¹
-15.0%	5.4%
BASE FEE	MAX INCENTIVE FEE +/-
0.89%²	0.20%

Numeric Invst Sm Cap Value

1-YR PERFORMANCE	5-YR AVERAGE ¹
-12.0%	14.0%³
BASE FEE	MAX INCENTIVE FEE +/-
1.35%	0.50%

Vanguard Global Equity

1-YR PERFORMANCE	5-YR AVERAGE ¹
-14.9%	1.6%
BASE FEE	MAX INCENTIVE FEE +/-
1.02%	0.22%

¹Annualized return. ²3% maximum load.

³Return since Dec. 1998. Sources: Lipper; Morningstar; Forbes; fund companies.

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The Russian (Oil) Revolution

Russia has more oil reserves than any other non-OPEC nation, and ADRs for Americans who want to brave a rather forbidding climate for investors. BY MEGAN E. MULLIGAN

AS THE SOVIET UNION SANK, A cluster of insiders plucked vast energy resources from the state at knockdown prices and turned them into an oil industry. Many of these oligarchs are now listing their companies on U.S. exchanges, thus offering equity investors an opportunity to drill for hidden value.

Lukoil, with \$14.8 billion in revenues in 2001, is the industry's heavyweight. It pumps 460 million barrels of oil a year, 20% of Russia's output, and has at least another 30 years' worth in the ground at present production rates. Lukoil also operates gas stations across the ex-Soviet republics, and it bought Getty's gas stations in the U.S. It owns refineries throughout eastern Europe. Vagit Alekperov, an oil-and-gas minister in the former Soviet Union, cobbled the company together out of some of the best Russian oil properties. The 10% stake he stitched up for himself is worth \$1.2 billion, and he ranked number 329 on *FORBES'* list of the world's billionaires.

Lukoil, which has joint ventures with BP and ConocoPhillips, is pushing for new deepwater facilities in the all-weather port of Murmansk. That would let it ship more oil to North America.

The analysts' consensus estimate is that the company will earn \$9.79 per American Depositary Receipt for 2003, and Lukoil is trading at a mere 6 times that amount. That makes it look like a bargain in comparison with U.S. oil majors. ExxonMobil shares cost 16 times projected 2003 earnings. But lately Lukoil has had its problems.

Alekperov has endured the mysterious kidnapping of his chief financial of-

ficer, a messy political struggle with the governor of the oil-rich Nenets region and Saddam Hussein's tearing up a long-standing contract to develop one of Iraq's biggest oilfields. The ADR has dipped 10% since January.

Yukos, with \$9.2 billion in annual revenue, is Lukoil's rising challenger. Run by 39-year-old Mikhail Khodorkovsky, a former Communist Youth Leaguer who is now the richest Russian (26 on the *FORBES* list), Yukos has been transformed since he bought it for a song in 1995. Hardball tactics that had aroused complaints from shareholders, foreign banks and partners like Amoco have been changed by Western directors, managers and auditors. Yukos seems destined to become Russia's number one in production, profits and market value.

Like Lukoil, it wants to export more crude. Storms close its Black Sea oil terminals in winter. In February Yukos bought the Eastern Oil Co. of Siberia. Khodorkovsky is urging the Russian gov-



ernment to build a pipeline to connect Siberian oilfields to China and the Pacific coast port of Nakhodka.

Moscow's recent announcement that foreign oil firms investing in Russia will no longer get special legal protection could also work to the advantage of Russian outfits. The Russian oil and gas companies listed below all trade in the U.S. as ADRs. Two warnings: First, while they make a show of following U.S. accounting standards, they sometimes publish balance sheets that are as impenetrable as a Siberian winter.

Second: Lukoil and Yukos have big interests in Iraq. The retention of these is far from certain.

Put a Bear in Your Tank

Russia is the world's number two oil producer and exporter. These Russian oil and gas companies are growing to keep up with demand.

Company	ADR price	Change from 52-wk high	2001 revenues (\$bil)	Market value (\$bil)
Gazprom	\$11.70	-42%	\$19.3	\$27.7
Lukoil	55.38	-24	14.8	11.8
Sibneft	20.55	-20	3.4	9.7
Surgutneftegas	14.50	-39	5.6	10.4
Yukos	145.00	-16	9.2	21.6

Prices as of Apr. 1. Sources: Bloomberg Financial Markets; J.P. Morgan Chase; Worldscope via FactSet Research Systems.

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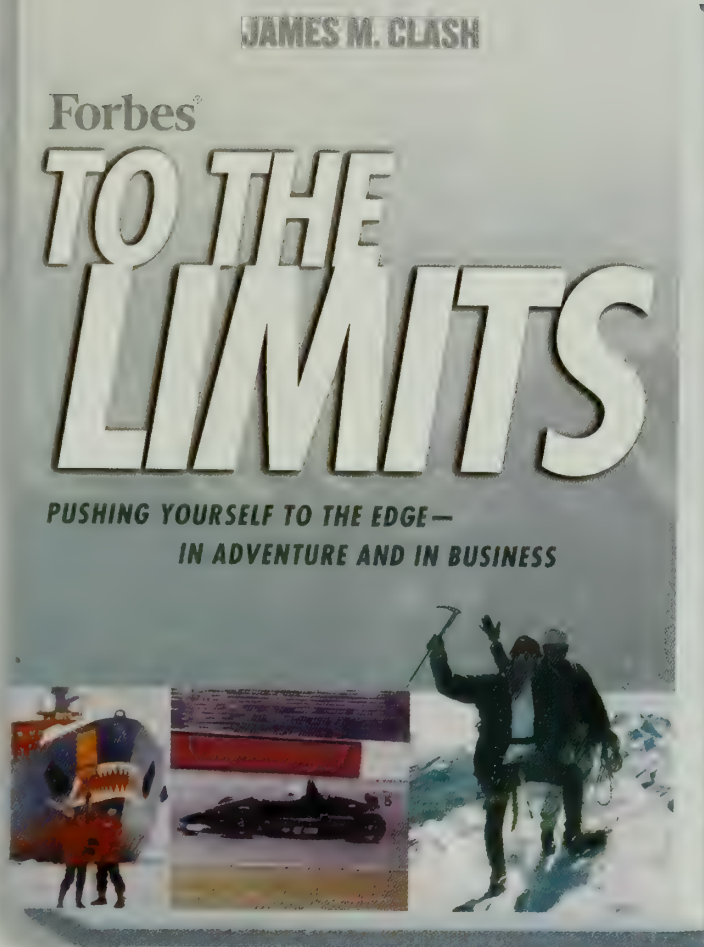
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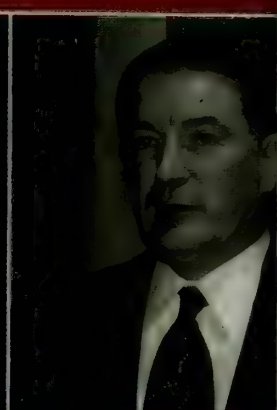
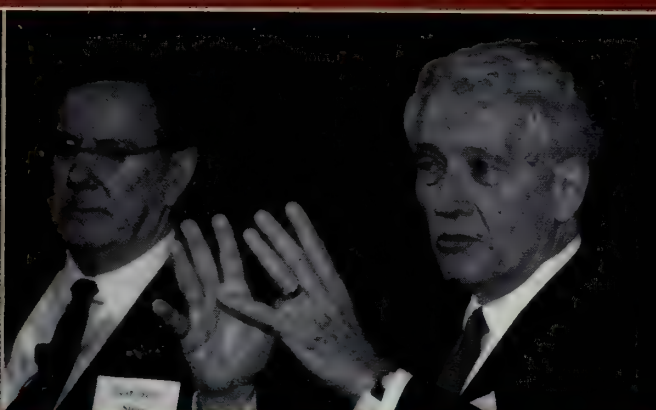
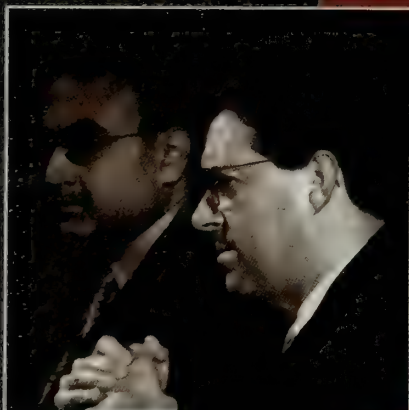
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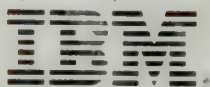
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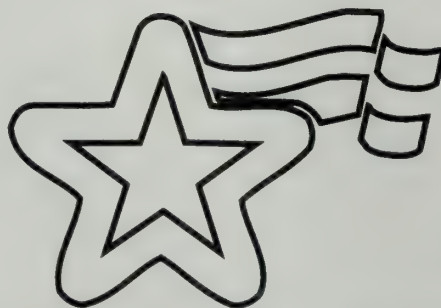
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AN OPEN LETTER FROM U.S. SECRETARY OF STATE COLIN L. POWELL



Dear U.S. Business and Private Sector Leaders:

In today's world, business is global. In a world of advancing freedom and markets, opportunities do not stop at the water's edge.

I am proud that American businesses stand in the forefront of firms working to capture business opportunities in every region, and on every continent. American firms are doing business, sharing American know-how and best practices, and expanding the circle of prosperity.

However, as events of the past 18 months have brought painfully home, the world is a dangerous place.

In business as in government, the security of our people and of our facilities is our most important responsibility. Security must be a cooperative effort between business and government. That is why I am such a strong supporter of the **Overseas Security Advisory Council, or OSAC**.

OSAC is a partnership between the American government and the American private sector to increase the security of Americans doing business abroad.

OSAC provides critical, up-to-date information through briefings, reports, studies, and other media. It has a web site with real time information on breaking events and potential threats.

Through **OSAC** you can have access to a Research Information Specialist for answers to specific questions.

You can also participate in **OSAC's** overseas Country Councils, led by the professionals of the State Department's Diplomatic Security Service. In these Councils, members partner with our embassies and consulates to share information on local and regional security issues.

In the wake of the civil unrest in Venezuela, for example, our Country Council provided companies operating there with the timely assessments of the security environment in Venezuela that they needed to make their business decisions.

OSAC works. From its beginning with a handful of companies in 1985, it has grown into a network of some 2200 American businesses and other private sector organizations.

Please join us. Let **OSAC** work for you. Together we will do everything possible to make this world one of opportunity safely realized.

Sincerely,

A handwritten signature in dark ink, appearing to read 'C. L. Powell', written over a light background.

Colin L. Powell

States Department of State



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Crash and Opportunity

REPORTING LIVE FROM THE WAR: HEAVY CASUALTIES, with German forces hit worst—75% lost. American and British losses lighter. German life insurers decimated. I'm not gloating, just reporting the facts: In terms of market capitalization, the coalition of the willing is doing much better than the coalition of the unwilling. The U.S. and the U.K. between them account for more than two-thirds of the world's combined stock market value. The German market is now worth less than Canada's. That was not true in August, when Iraq war talk began. Canada's stock market has been correlating with those of the two Uniteds, which are hovering at last summer's levels. German and French stocks, in contrast, have tanked. Badly.

The German and French markets combined are now worth less than the U.K.'s 20 largest stocks, or the 4 largest American stocks (Microsoft, General Electric, Exxon and Wal-Mart). The unwilling are being marginalized.

I report from Munich. With the war starting I had to head to Europe to get some good old-fashioned anti-Americanism. I can't find much. There is more back home in San Francisco. Germans love Americans but dislike the French. Yet in foreign policy they allow themselves to be led blindly by the French. The French can't fathom why they're losing ground as they plant both feet firmly in the 20th century.

What about all those antiwar protests? They sure get a lot of television play. On Mar. 29 I saw the biggest anti-American protest since San Francisco, in Edinburgh, Scotland—but it was all students and old 1960s socialists, openly organized by the Scottish Socialist Party. The Scots, for all that they are part of the British Isles, have less hostility to Americans than to the English. The two Uniteds are united. The unwilling are losing badly. The unwilling are unable. Disabled.

Germany's market is down 75% from its high three years ago—worse than 75% in real terms, since there has been a little inflation. That puts its bear market in a league with America's 1929-32 debacle. That period saw the S&P 500 down 86%, but the decline was partly offset by a 33% deflation. In real terms the U.S. Great Crash came to 79%, in line with Germany's current crash. Very similar.

Pessimism is thick and pervasive in Germany. Its stock market is down 75% from the high. This presents a great opportunity, especially among insurance stocks.



In 2000 financials were 33% of the German market, slightly more than tech was in America's market. But the German financials fell even more than the U.S. tech stocks did. This sector is led by insurers instead of banks, and as stocks have fallen they have been forced to sell their own equity to meet regulatory requirements, driving their stocks lower still.

These newly created shares provide newly created liquidity at depressed, fire sale prices. This vicious cycle won't end until global markets rise. But because of the forced equity sales, these insurers will have greater liquidity than their non-German peers after the dust settles, and they will be stronger for it. In sympathy with the insurers, everything else German is battered badly.

Pessimism is thick and pervasive. At a Munich-based German professional investor conference, sentiment is vastly more dour than in America. It's the war. Germans can't make sense of what is happening and see no way out. There is more talk here among professionals about surviving in money management than about the German stock market. How to cut costs. How to hunker down. How to survive regulatory scrutiny. Opportunity is obsolete in their minds. And Munich is ground zero as the insurance capital. The tower of dour.

But the *biergartens* are busy. Business on the streets isn't as bad as you read about. The economy is weak, but nothing near as weak as the stock market. The depression is more psychological than real. Older Germans, and most are, can't watch news of the war or even talk about it. They have talked themselves into a slump of despondency. Hence, there's opportunity.

As Iraq fades—and it will—so, too, will the coalition of the unwilling. With that, as markets rise in the two Uniteds, their overwhelming weight in the world will, through classic competitive sympathy buying, pull the non-United equity market up, too. And then Germany's market will rise, but more so. It will be led by the same insurers that dragged it down. Just as tech in America led the U.S. market down but is now leading it up, the insurers that cost Germany so badly present great opportunity. Expect a reversal soon.

To the victors go the spoils. Buy **Allianz (5, AZ)**, **Munich Re (68, MURGO)** and **HVB Group (8, HVMGY)**. But also buy beat-up German noninsurers, like chipmaker **Infineon Technologies (7, IFX)**, chemicals maker **Henkel (55, HENKY)** and software vendor **SAP (21, SAP)**. Once the unwilling are willing, they'll be willing and able. **F**



Kenneth L. Fisher is a Woodside, Calif.-based money manager. Visit his home page at www.forbes.com/fisher.

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Downgrade Mania

THE RATING AGENCIES SAY THAT THE CREDITWORTHINESS of U.S. companies is getting worse all the time. Spurred by the huge default rates for corporate debt in the last three years, the three major credit rating agencies—Standard & Poor's, Moody's and Fitch—have embarked on an orgy of downgrades.

It's the latest in an ongoing and perverse trend. The agencies have had a downgrade bias for some time: From the early 1980s through the current day, downgrades have eclipsed upgrades. The cumulative effect has been to debase American industry to such an extent that investment-grade issuers—BBB or better—have declined from 68.2% in 1981–83 to 48.4% now (see chart). Junk issuers are now the majority. This belies congressional criticism that agencies have been too slow to downgrade.

Some will argue that the companies themselves are to blame for this credit deterioration because they took on too much debt. While there is some truth to this charge, I believe the credit agencies' role needs to be reevaluated. The agencies are simply too negative.

Credit agency reports and rating actions are sounding more and more like brokerage house analysts focusing on the outlook for a company's equity rather than its ability to service debt. Witness S&P's recent announcement that American International Group (an AAA credit) may be downgraded if whoever eventually succeeds Chairman Maurice Greenberg, 77, doesn't measure up to his high standard of leadership.

Downgrades have the distorting effect of raising a company's borrowing costs. And any problems that a company has are only magnified by the downgrade. Ford Motor is a prime example. In 1999, when the automaker's rating was A+, it could issue long-term debt at 7.45%. By 2002 Ford's rating had dropped to BBB, just above junk. Rather than pay higher interest rates far into the future, Ford opted to sell 30-year convertible preferreds. When Ford's stock shoots up and these preferreds are converted to common, they will dilute shareholder earnings.

Downgrade mania is killing mature companies that find more and more of their earnings are needed just to service debt. As a result, vital capital expenditures are not made. When electric power producer Mirant was demoted to junk status last year, for instance, it pulled back on ambitious plans to expand its 20 gigawatts of capacity by 150%. Now those plans have been cut by one-third.

Fallen angels like Mirant—that is, investment-grade companies that have been downgraded to junk—are competing in a crowded junk market with long-standing junk credits like container maker Crown, Cork & Seal. That means that Crown has to pay a hefty yield to attract money. On its recent issue of ten-year senior secured notes due 2013, it paid



10.88%, or seven percentage points over the ten-year Treasury yield at the time.

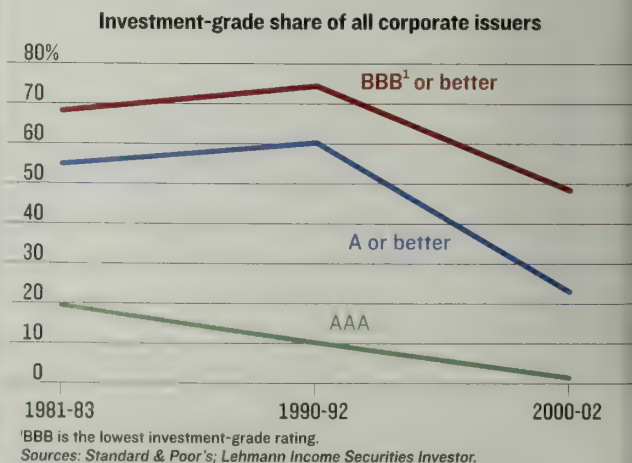
Downgrades have become a bigger risk for investment-grade issues than an interest rate rise. The reduced supply of investment-grade bonds pushes the price up and thus their yields down.

The bargains are in the junk credits, not the scarce investment-grade ones. Don't let the term "junk" frighten you. Default rates are way down, from 10% in early 2002 to 4% now. Yields, though, are pretty much the same, which spells opportunity. After three years of watching the stock market's massive meltdown, bond default loss and risk pales by comparison.

My advice is to buy preferreds backed by solid junk bonds: These are more liquid than bonds, anyway. Consider two with split ratings (junk by S&P, barely investment grade by Moody's). The nation's largest credit card outfit, **MBNA (25, KRB E)** 8.1%, 2/15/2033 preferred, now trades at par. Richer still is the **Ford Motor Capital Trust II (36, FS)** 6.5%, 1/15/2032 convertible preferred. It can be exchanged anytime into 2.8 common shares currently worth \$22, has a redemption value of \$50 and yields a lush 9% to maturity. Ford is now in one of its periodic slumps. It has time for three turnarounds between now and 2032. **F**

Investment-Grade Meltdown

There has been a steady decline in investment-grade ratings. The pessimistic credit rating agencies have been dishing out downgrades as if the world were ending. This is surely overkill.



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Richard Lehmann is editor of the *Forbes/Lehmann Income Securities Investor*. Visit his home page at www.forbes.com/lehmann.

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SANDWICHED IN BETWEEN THE RIO GRANDE AND AN alkali wasteland the size of Connecticut sits the least accessible resort in the continental U.S.—Lajitas, built at a cost of \$55 million cash by Texas centimillionaire Steve R. Smith. To get there you have to fly by private plane to the resort's 7,500-foot landing strip or else fly commercial to the nearest airport (Midland, Tex.), 255 miles away, then drive four hours. Lajitas is 608 miles from Dallas, 316 from El Paso.

Smith thinks isolation is an attribute. "People want a place to go that is remote," he says. "Here, they can have that without even leaving the country." He's betting Lajitas will appeal to rich folks seeking "the ultimate hideout."

Lajitas boasts an 18-hole, par-71 golf course, with a second due to open in 18 months and a third on the drawing board; an equestrian center, whose trails connect to Big Bend National Park; and a hunting lodge from which guests can shoot dove, quail or clay pigeons. For foodies there are two restaurants, serving such fare as hot and crunchy trout atop a mango-jalapeno sauce, tequila-injected pork chops and rabbit-stuffed venison served with a prickly-pear cactus chutney. In the works are a 33,000-square-foot health spa, a tennis center and even a nature preserve.

Such amenities, Smith hopes, will induce visitors to sign up for membership in Lajitas' golf club (initiation costs \$100,000) or buy a vacation home (\$300,000 to \$3.5 million, including golf membership). To date 36 buyers have signed contracts for homes, and 40 more have put down money for club memberships.

Someday, maybe, the place will fill up. It felt awfully lonely when we visited in January, shortly after Lajitas opened. Its 80 hotel rooms

and suites (rates average \$300 a night, excluding food) housed at most five guests.

Minor details like that don't bother Smith, 57. He's prepared, he says, to plumb the depths of his own deep pockets to get Lajitas off the ground. "If he were trying to do this with debt financing, I don't think anyone would touch it, because there is so much risk



NANCY NEWBERRY FOR FORBES (LEFT)

Deep in the Heart

Searching for a safe retreat, a hideout hidden in the heartland? Pardner, you just found Lajitas.

BY CARRIE COOLIDGE



involved," says James J. Eyster, professor emeritus at the Cornell University School of Hotel Administration. "Usually, when something with this kind of risk gets rolling, it's someone with an idea who is not easily discouraged."

That's Smith. After Sept. 11 authorities closed the Rio Grande crossing used by Smith's legal Mexican laborers. Their commute, which had been a five-minute boat ride, suddenly became a six-hour drive. He built them a 34-bedroom dormitory at Lajitas, where they stay during the week.

Next problem: how to irrigate golf courses in the middle of a desert. Smith spent \$800,000 to dig deep wells. He spent \$1.2 million more to build a treatment plant so water could be recycled. (Locals complain, nonetheless, that Lajitas' thirst will drain the West Texas aquifer.) With the nearest hospital more than an hour away, Smith started a medical clinic and hired a doctor. Eager to attract a jet-set crowd, he built not just the private runway but hangars and a lounge. For guests who don't own a plane, Lajitas can arrange pickup by Learjet anywhere in the U.S.

It's easy to understand why Smith is optimistic, since luck has smiled on him before. In the 1980s, after he left his father's paint manufacturing business, Smith and his wife, Sarah, went broke. They lived in a borrowed apartment without electricity or running water and bathed their two young children in a neighbor's swimming pool. Then Smith stumbled upon the idea of selling decorative bundles of dried and shellacked chili peppers, called *ristras*. The novelties were popular in his home city of El Paso, yet no one was selling them in Austin. Smith bought chilies on the cheap, marked them up ten times and resold them from his pickup. Soon he was earning \$10,000 a month.

When he heard in 1989 that an old pal, Kenny A. Troutt, had started a long-distance phone company called Excel, he suggested Troutt try selling services through multilevel marketing. Troutt hired Smith as head of sales. The company went public in 1996, with revenues of \$1.4 billion. In 1998 Excel merged

Amenities include a jetport, a golf course and tequila-injected pork chops.

with Teleglobe, creating a \$7 billion company. By 1999 Smith had cashed out his stake, netting \$250 million.

That same year he read in *Millionaire* magazine that Lajitas, an unincorporated town of 25,000 acres, would be sold at auction. Having spent vacations river rafting in the area, he attended the auction out of curiosity, landing by helicopter just 45 minutes before bidding was to start.

He toured the property, which then included a low-end motel, a nine-hole golf course, a fake old western town (built in the 1970s), an RV park and a beer-drinking goat named Clay Henry III that was (and still is) the town's elected mayor. Smith, whose plans for all of this were hazy, bid \$4.5 million and walked away its owner. Only later did he conceive the idea of turning Lajitas into a hideout for fellow millionaires.

Will his dream pan out? "Resorts like this work if you have a unique site and a very patient, superrich developer who is prepared to take his time," says Chase Burritt, national director of Ernst & Young's Hospitality Services Group. Example? The Greenbrier, located in White Sulphur Springs, W.Va.—not exactly the crossroads of the world. Cornell's Eyster remains doubtful. "I am not sure what the depth of the market would be for people who would want to be out in the middle of nowhere," he says. "But once in a while things like this do work out. Ten years from now Lajitas could be the place."

A few West Texans hope it won't. Ironically, in a corner of the world so sparsely populated, Smith's biggest problem right now seems to be his neighbors. Bohemians and free spirits, drawn to the region by its unspoiled wildness, resent what they see as Smith's commercialism, his unquenchable thirst for water, his pandering to millionaires. Class tensions have gotten ugly. Last year Clay Henry, Lajitas' beloved goat-mayor, turned up castrated. The trial of the accused perpetrator, a disgruntled fellow from Del Rio, ended in a hung jury. **F**

Dead Man Working

It's time to acknowledge the immense contribution of corpses to bettering the lives of us working stiffs.

BY SUSAN ADAMS



TODAY IT IS POSSIBLE TO RAM A CAR into a wall at 30mph and walk away with little more than a welt on your head. For that we can thank the meticulous work of the auto engineers who designed tempered glass windshields and padded dashboards. But there's also a group of unsung heroes who made this accomplishment possible. These people, it happens, made their contributions in death. They donated their bodies to research.

Without the noble efforts of these deceased, we learn from Mary Roach's acutely entertaining, morbidly fascinating new book, *Stiff: The Curious Lives of Human Cadavers* (W.W. Norton, \$24), there would be no air bags, no recessed dashboard knobs, no steering columns designed to collapse on impact, thus preventing serious injury to the heart and aorta.

You might interject that crash tests are usually run on dummies. They are—but where do you get the dummies? To design them, bioengineers had to start with cadavers, which furnish the data on precisely how much force a human chest can withstand, say, before the ribs start to break.

And that's just the edge of the grave-

yard. Without cadavers we would have no heart transplants, no skin grafts, no gender-reassignment surgery. Corpses helped solve the mystery of the crash of TWA Flight 800 (the fact that most passengers' bodies remained intact suggested there had been no bomb). They have helped test the impact of nonlethal munitions like plastic and rubber bullets and have helped determine the best kind of footwear for land-mine clearance teams.

Once we take note of these post-mortem achievements, are there no names

we can cast in stone? Sadly not, Roach reveals. Cadavers' anonymity is carefully protected. Take, for example, UM 006, the corpse she observes working with researchers at Wayne State University in Detroit to determine how much force a human shoulder can withstand in a side-impact car crash before it sustains serious injury. A big, beefy man, he is dressed in a royal-blue leotard and matching tights. His face is masked by a snug-fitting white cotton hood. Not even UM 006's

family knows what he's doing—only that he donated his body for research.

How does a business or research lab go about obtaining a cadaver, or just a piece of one? Aside from universities that host willed-body programs, several nonprofit outfits, including the National Disease Research Interchange in Philadelphia and the Anatomy Gifts Registry in Hanover, Md., make body parts available to researchers. Recipients first must go through an application process that includes a pledge not to profit from trade in human tissue, which is against federal law.

There is loads more intriguing information in Roach's book, including her description of efforts by various entrepreneurs to come up with new ways to dispose of, use and market human remains. Swedish biologist and environmentalist Susanne Wiigh-Masak, for instance, wants to turn our late loved ones into garden compost. Her company, Promessa, is developing a process that uses liquid nitrogen and ultrasound to transform corpses into freeze-dried chunks that can be plowed easily into a churchyard or memorial park. **F**



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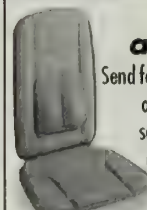


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THOUGHTS

On the Business of Life

For speakers, particularly politicians, frequent interruptions for applause are considered oratorical triumphs. Yet, after what most Americans consider the greatest speech by an American president, Abraham Lincoln left Gettysburg feeling he "did not score" because there was nearly no applause when he sat down. While some historians now say it was a case of unawareness rather than lack of emotion, I prefer the traditional thinking that his battlefield audience was so moved, their greatest tribute was silence. —MALCOLM S. FORBES (1982)

It's a damn shame we have this immediate ticking off in the mind about how people sound. On the other hand, how many people really want to be operated upon by a surgeon who talks broad cockney?

—EILEEN AITKINS

The basic rule of human nature is that powerful people speak slowly and subservient people quickly—because if they don't speak fast nobody will listen to them.

—MICHAEL CAINE

The sanity of the average banquet speaker lasts about two and a half months; at the end of that time he begins to mutter to himself, and calls out in his sleep.

—JAMES THURBER

People resent articulation, as if articulation were a form of vice.

—FREDERIC RAPHAEL

Wherever the relevance of speech is at stake, matters become political by definition, for speech is what makes man a political being.

—HANNAH ARENDT



There are remarks that sow and remarks that reap.

—LUDWIG WITTGENSTEIN

I do not object to people looking at their watches when I am speaking. But I strongly object when they start shaking them to make certain they are still going.

—LORD BIRKETT

Churchill wrote his own speeches. When a leader does that, he becomes emotionally invested with his utterances. If Churchill had had a speech writer in 1940, Britain would be speaking German today.

—JAMES HUMES

Lecturer: One with his hand in your pocket, his tongue in your ear and his faith in your patience.

—AMBROSE BIERCE

Let thy speech be better than silence, or be silent.

—DIONYSIUS THE ELDER

We do not talk—we bludgeon one another with facts and theories gleaned from cursory readings of newspapers, magazines and digests.

—HENRY MILLER

A Text...

Lying lips are abomination to the Lord: but they that deal truly are his delight.

—PROVERBS 12:2

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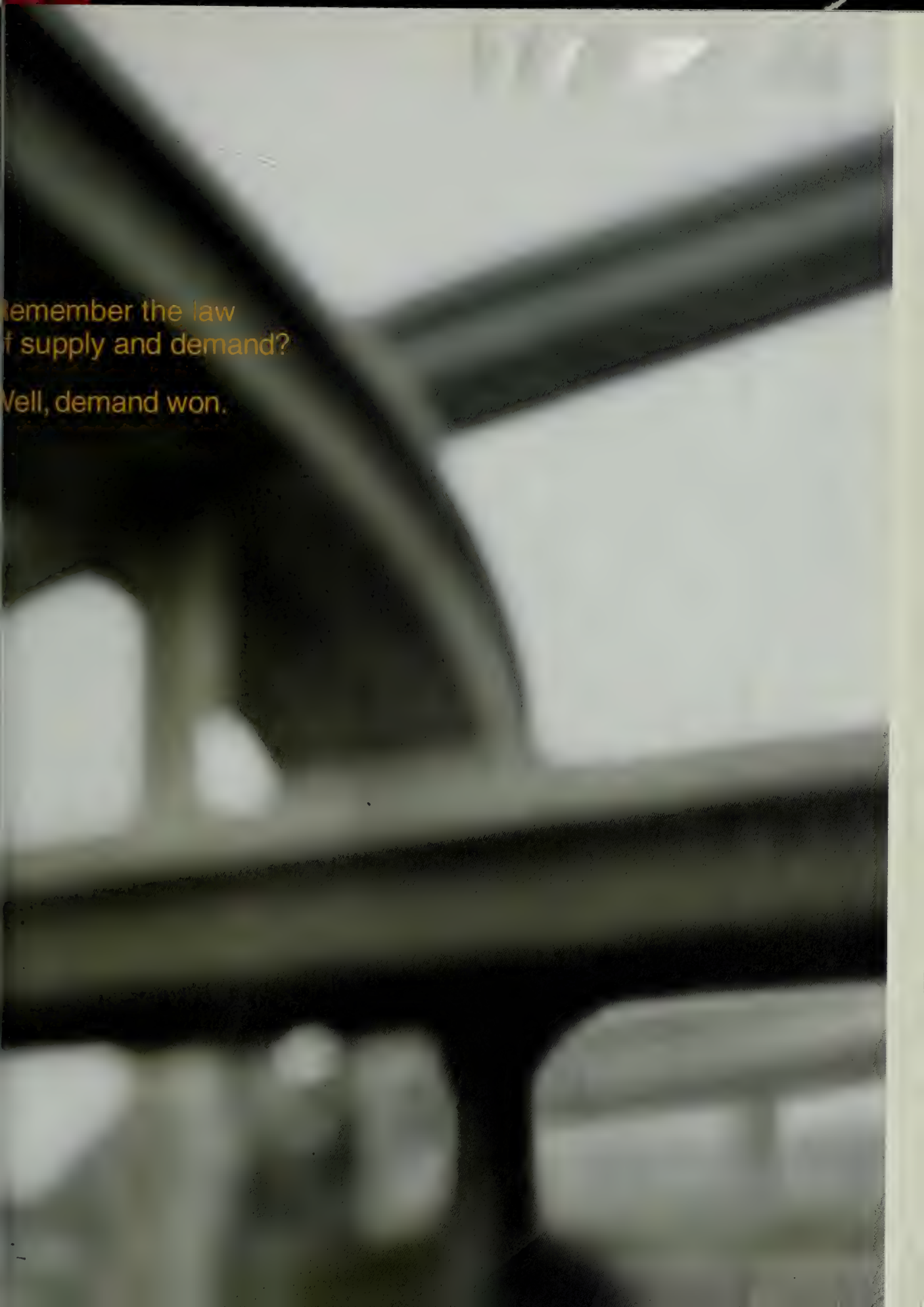
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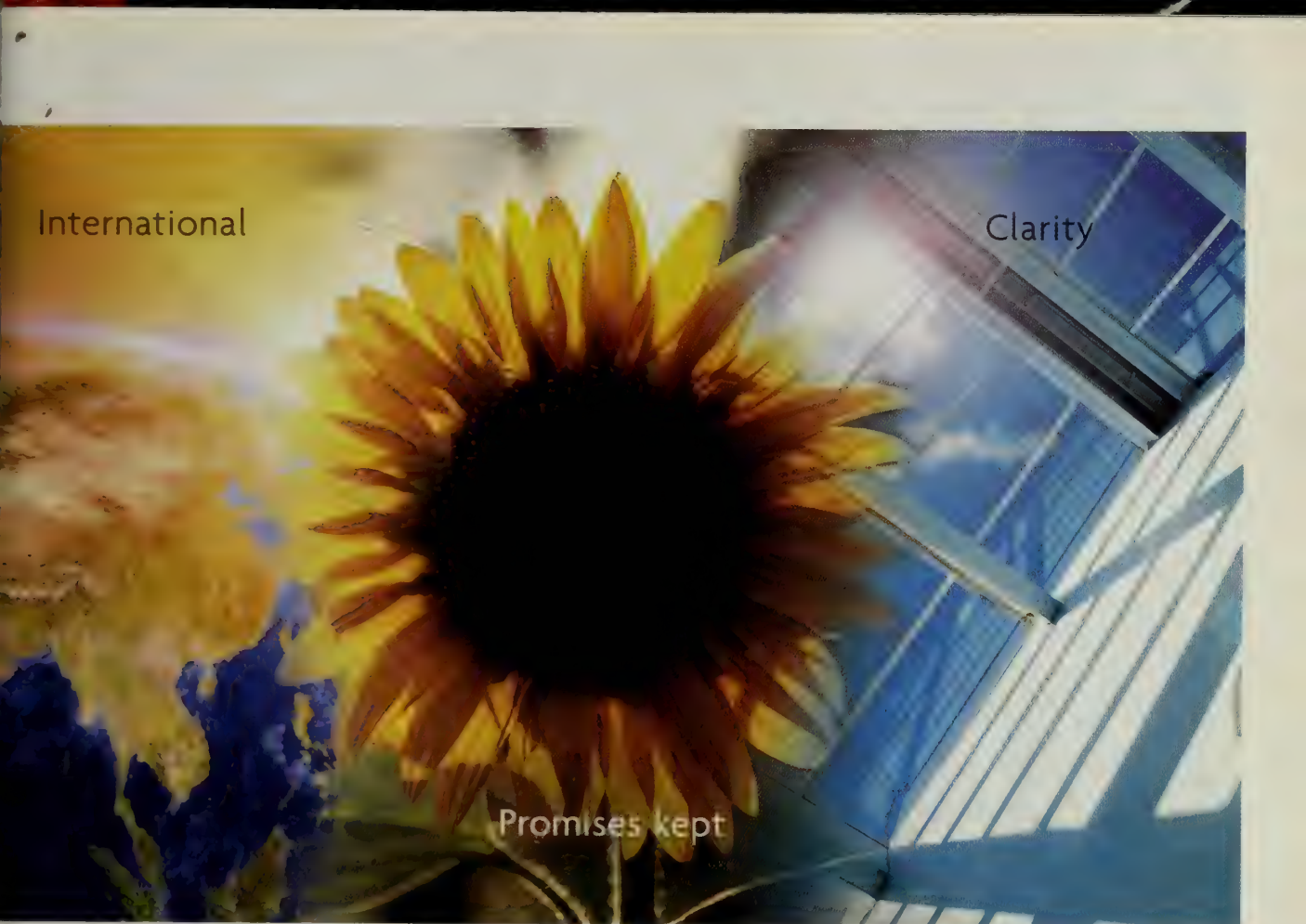
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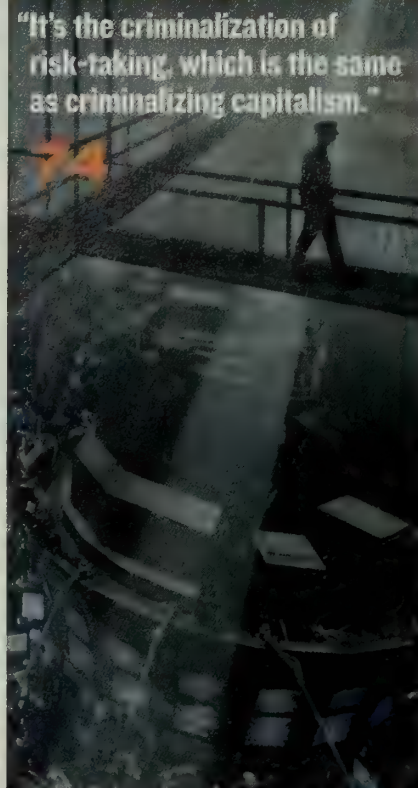
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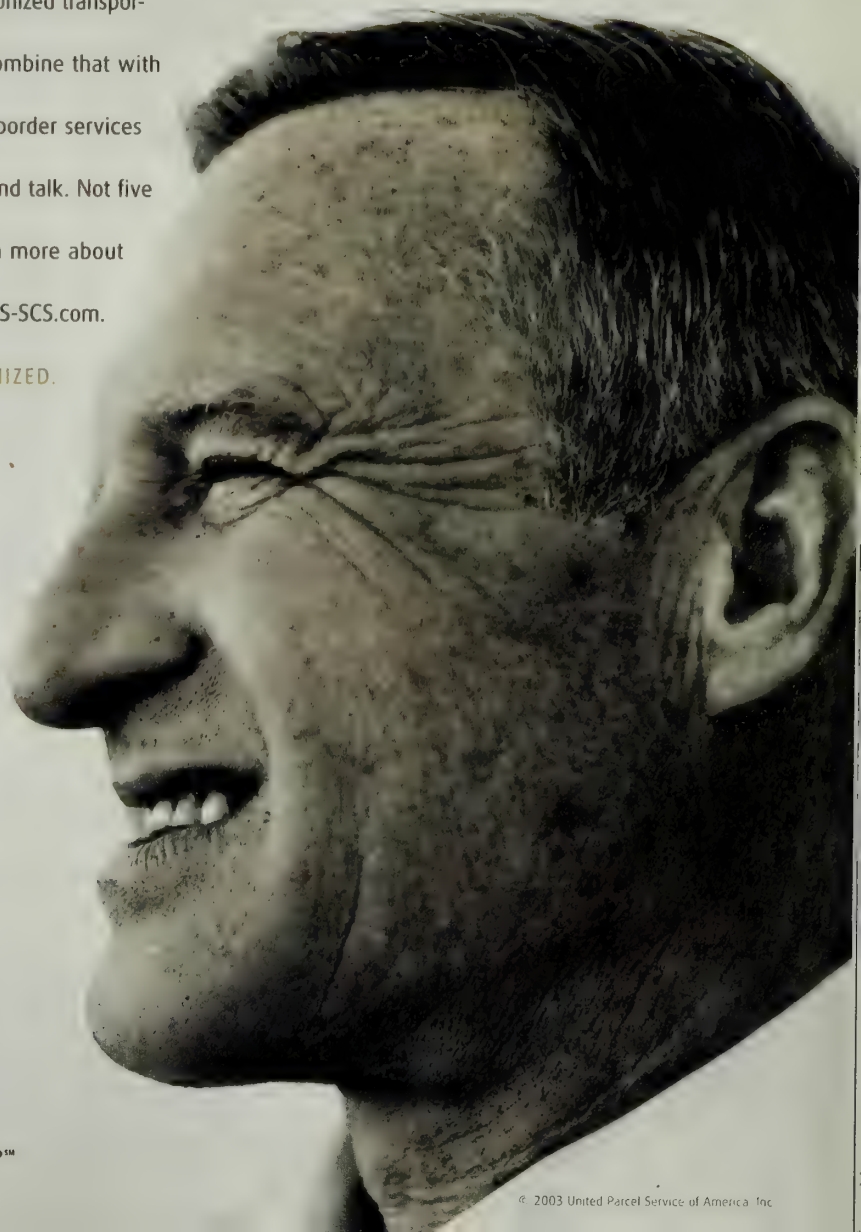
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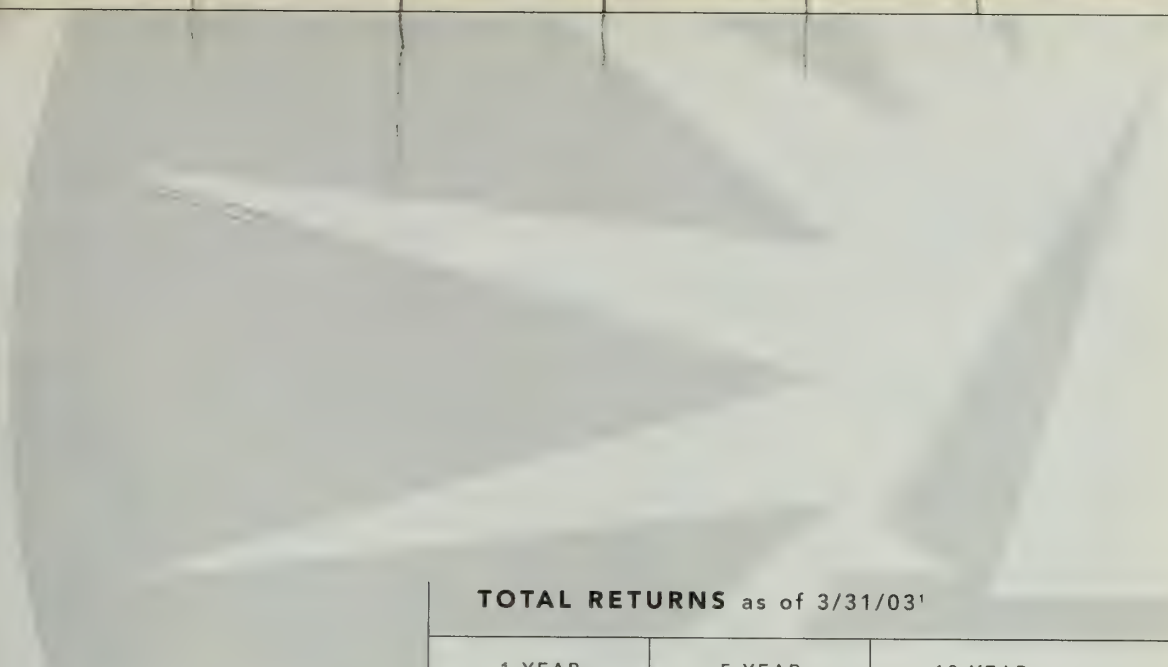
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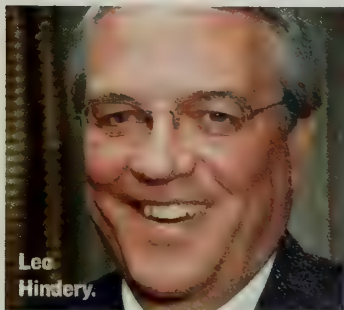
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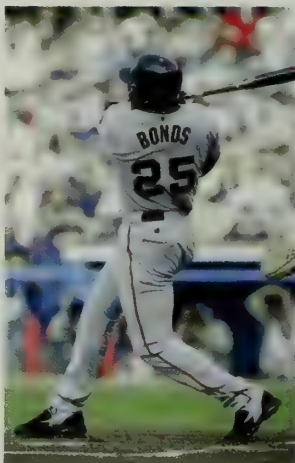
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Lifestyle

Notorious CEOs' Notorious Homes

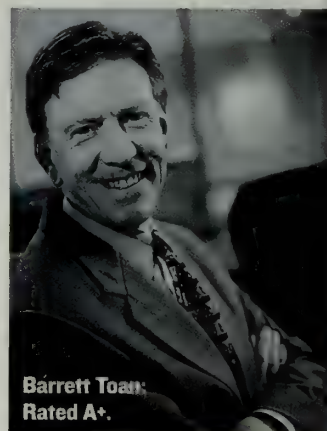
Betsy Schiffman

When their companies' stock price was high, now-disgraced chief executives like Enron's Kenneth Lay, WorldCom's Bernie Ebbers and Tyco's L. Dennis Kozlowski spent millions of dollars to buy luxury homes in some of the most expensive parts of the country. Many such properties were subsequently sold off for pennies on the dollar to satisfy creditors. Forbes.com sets off in search of bargain mansions with ill-starred histories.



In Aspen, one piece of Kenneth Lay's real estate portfolio.

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Forbes Global

Cinema: Ticket for One?

In the mid-1960s American films accounted for 35% of box office revenues in Continental Europe, compared with between 80% and 90% today. We outline what it will take for foreign moviemakers to gain back global market share.



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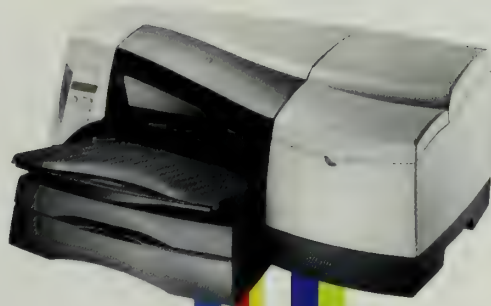


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SIDE LINES

Angry About a Rotten Stock? You could sue yourself. It's a mixed blessing when your lawyer treats you to a fancy lunch. The tab will probably show up on his next bill.

So it is with the bustling industry of securities fraud litigation. You buy Tyco or Cendant when it's hot. The stock goes down and a securities lawyer files suit against the company on behalf of all the investors who got hosed. The charge is that the people running the company painted too rosy a picture of its finances. Eventually the case is settled, and you get back a few bucks a share, minus a very ample fee to the lawyers.

Where does the settlement money come from? From the insurance companies that underwrite D&O, that is, liability policies for directors and officers. Where do they get the money? From premiums charged to the corporations you invest in. In the long run, the settlements are coming out of your hide. You're suing yourself.

Stanford Law School, which tracks this racket, tabulates 224 federal securities fraud lawsuits filed during 2002, up 31% from the year before. An economist at the Insurance Information Institute says D&O premiums are running between \$2.5 billion and \$3 billion a year, and still the insurers are losing money on the policies.

It's going to get worse. The recent congressional contribution to this situation, the self-righteous Sarbanes-Oxley Act, will make it easier to sue over faulty financial reports. See Neil Weinberg's story on the wrecking of Wall Street, page 74.

People who steal money by lying about what they are selling should give the money back. So, if the chairman releases phony earnings statements while unloading \$300 million of stock, he should cough up the proceeds. Also his performance bonus.

But what if these lies affected the price at which other people traded shares? We're talking about a lot of mispricing—\$1.9 trillion in the Stanford count for 2002. It's absurd to force the insiders, or the corporation, or their insurers to make restitution for these trades. The innocent sellers inadvertently got too much money, while the buyers paid too much. A wash. See page 50, where mathematician John Allen Paulos explains the economics of loaded dice.

It runs against the grain of legal thinking to say that there can be an injury with no remedy. But in the case of most securities litigation, the lawyers are adding an expensive insult to the injury—their fees.



William Baldwin

EDITOR



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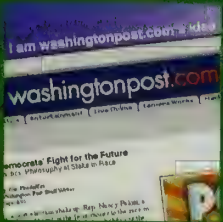
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READERS SAY

Passing the Test

As president of Local 311 of the UNITE union, I have worked with Aaron Feuerstein for more than 20 years and have always known him to act on principle—not for personal gain, as “Trial By Fire” (*Apr. 14, p. 92*) implies. His example of corporate responsibility is one that other chief executives in this country need to learn from and follow. Malden Mills is alive, thriving and growing in the U.S. and globally, thanks to Aaron’s leadership and continued concern for the human equation.

Joe Melo
 Lawrence, Mass.



Sustainability Index

We feel compelled to correct Steven Hayward’s statement made in “The Triple Bottom Line” (*Mar. 17, p. 42*) that environmental and social factors account for only a fraction of the criteria for selecting stocks for the Dow Jones Sustainability Index. We place an equal weighting of one-third on each sustainability dimension—economic, environmental and social. He also errs in asserting that the DJSI “adds and deletes companies more frequently than most indexes.” We reconstitute the index once each year, selecting the top 10% of sustainability practitioners worldwide, industry by industry. Finally, we challenge Mr. Hayward’s argument that the Enron scandal gives reason for skepticism about applying sustainability criteria to investing. Enron was never a member of the Dow Jones Sustainability Index.

JOHN A. PRESTBO
 Editor, Dow Jones Indexes
 Princeton, N.J.

Free Trade

I write in response to “Please Dump on Me” (*Apr. 14, p. 22*). Of course the elites do not suffer from foreign competition. Universities, hospitals, newspapers and magazines do not hire professors, physicians and writers for \$400 a month.

When people out here in flyover country see the big guys beginning to be affected by cheap foreign labor, we may take your arguments more seriously.

DALE E. ELLIOTT
 Lovington, Ill.

Stock Options

As a shareholder activist who would abolish stock options entirely if empowered to do so, I must say that I found your blunt criticism of Cypress Semiconductor’s stock option policy in “Not an Option” (*Apr. 14, p. 46*) refreshing. Thank you for standing up to T.J. (must stand for “Transfer the Jack”) Rodgers and his absurd defense of what is nothing more than an unethical transfer of assets from the company’s owners to those they have employed to run the company.

ROBERT L. CHAPMAN JR.
 El Segundo, Calif.

Ukraine Is no Iraq

I was surprised to find Ukraine among countries and areas targeted as “a smoldering volcano on the globe” in “The Next Iraq” (*Mar. 17, p. 50*). Independent Ukraine through all its history was not only a pillar of stability in the region but has established model good-neighbor relations with all surrounding countries, including new NATO mem-

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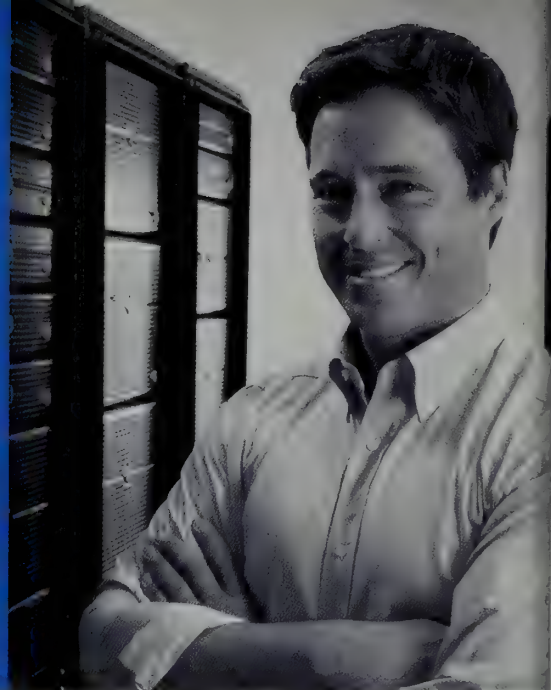
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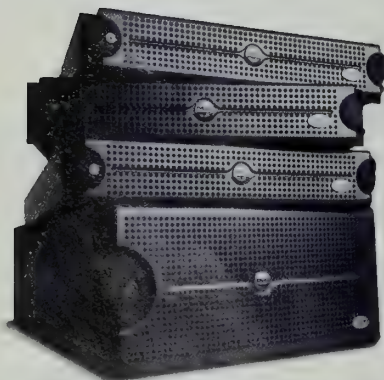
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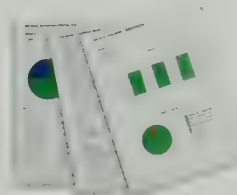
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bers. This fact is internationally acknowledged, particularly in the joint Ukraine-NATO documents. Ukraine's record in disarmament is outstanding, and my country has been repeatedly named by the U.S. Secretary of State as an example to follow for elimination of nuclear arms.

KOSTYANTYN GRYSCHENKO
*Ambassador of Ukraine to the U.S.
Washington, D.C.*

Healthy Cruise

"Shipshape" (Apr. 14, p. 249) fails to convey a balanced picture of maritime emergency medicine. The cruise lines have taken a proactive role in addressing the quality of shipboard medical care, and cruise ship physicians are members of the American College of Emergency Physicians. Cruise lines have 24-hour medical services and have trained staff onboard. Cruise ships have emergency-care providers that provide the necessary treatment to keep passengers stabilized until they can be safely transferred to the proper landside facility. Medical personnel must possess a current valid medical license and must be conversant in English. Each week thousands of guests and crew seek medical care in cruise ship infirmaries. The majority of these people have maladies that are not serious and can be treated aboard ship in a fashion similar to that at home. Those with more urgent illness or injury can also be treated and continue on with their cruise. Patients with the most serious and life-threatening medical problems that require resources beyond the scope of a shipboard medical facility are stabilized by the ship's medical staff and then transported to an appropriate shore-side medical facility for definitive treatment.

J. MICHAEL CRYE
*President,
International Council of Cruise Lines
Arlington, Va.*

Counting Cash

"Is That Revenue for Real?" (Apr. 14, p. 161) comments that it's hard for a corporation to fudge cash receipts, so keep an eye on the cash. However, readers should note that an unscrupulous company can manufacture cash, along with fraudulent earnings. For example, Enron's cash and cash equivalents

READERS SAY

between Dec. 31, 1999 and Dec. 31, 2000 rose to \$1.3 billion from \$288 million (in Dec. 2000 Enron declared bankruptcy). More currently, it turns out that Health-South's balance sheet at the end of the second quarter of 2002 revealed cash holdings of \$545 million, which sum was overstated by more than \$300 million.

THORNTON L. OGLOVE
San Francisco, Calif.

Cancer Treatments

"Some Nerve" (Apr. 14, p. 252) explains about a new surgical treatment for prostate cancer and states that patients that opt for radiation therapy "face a higher risk of not getting rid of all the cancer." The assertion that radiation therapy is a less effective treatment than surgery for prostate cancer is misleading. The treatment of prostate cancer is a complex issue. There are no studies directly comparing surgery to radiation therapy. In the absence of this data, it is impossible to state that one form of treatment is better. In fact, for certain patients, radiation therapy may yield superior results. The American Cancer Society and National Comprehensive Cancer Network Expert Consensus Guidelines recommend both surgery and radiation therapy as equally appropriate treatments for early-stage prostate cancer. Radiation therapy is favored for more advanced cancers. Patients must weigh the risks and benefits of each type of treatment during their decision-making process.

FRANCINE HALBERG
*Communications Specialist, American Society for Therapeutic Radiology & Oncology
Fairfax, Va.*

Naming Nehemiah

"Financing for the Masses" (Apr. 14, p. 86) incorrectly reported that the Nehemiah Plan provides people with down payments for their homes. It does not. A separate nonprofit, Sacramento-based Nehemiah Corp. of California, does provide down payment assistance to homebuyers through its Nehemiah program.



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by Steve Forbes, EDITOR-IN-CHIEF

With all thy getting get understanding"



Democratic Iraq? It Can Come to Pass

THE U.S. AND OTHERS WILL SOON BE UNDERTAKING MAJOR EFFORTS to physically rebuild Iraq, as well as to establish the foundations for representative government and free enterprise. By now everyone knows how daunting this task will be. The Iraqis have had no experience with democracy. Since the country was cobbled together by the British after World War I, it has been shaken by internal violence from disaffected parts of its very heterogeneous population. And, of course, Saddam Hussein severely damaged Iraq with his

Hitler/Stalin-style rule. Nonetheless, Iraq can break its bloodied bonds to the past if it adheres to these new guiding principles: economic freedom and the rule of law.

The Kurdish minority in the north of Iraq has flourished politically and economically since a no-fly zone, controlled by the U.S., was established over the area at the end of the Persian Gulf war. Largely free from Saddam's depredations, the Kurds have practiced the arts of self-rule and commerce. Heartening progress has been made on both fronts. The rest of Iraq will similarly move forward if people feel secure and if they are allowed to engage in business without undue interference or stifling taxation from the government.

The U.S. should work hard with our allies to train the Iraqis needed to implement the rule of law—from competent local police, whose task is to fight crime rather than suppress the population, to courts of law based on Western-style principles of justice. Over time people will become confident that disputes will be judged fairly in courts. The strength of Hong Kong's judicial system played a critical

role in that tiny area's rise from poverty to impressive prosperity.

Iraqis should be permitted to set up businesses with minimal fuss and bureaucratic interference. Lack of speed and efficiency in these areas severely hobbled many of the post-communist economies in eastern and central Europe. When Bulgaria's Prime Minister Simeon Saxe-Coburg-Gotha took office nearly two years ago, he was shocked to discover that entrepreneurs had to work their way through 17 government bureaus in order to obtain legal permission to start businesses.

Western-style property rights are also essential; most countries don't enjoy the guarantees Americans take for granted. People should have clear title to their land and houses, and they should be able to buy and sell them without encumbrance. Murky ownership titles retard economic progress and hinder the creation of capital. One goal of retired Lieutenant General Jay Garner should be real land reform—full ownership of the land and houses that Iraqis already occupy.

Put these basic ideas into practice—physical security, freedom from fear, property rights, low taxes, ease of starting a business—and Iraqi society will begin to blossom. Non-oil-related economic growth will occur, and civil institutions and customs will be established to meet the needs of an increasingly prosperous populace. These, in turn, will enable the Iraqis to develop politically. Democracy means more than an occasional election. It means new habits of initiative and self-governance, and these come only with experience.



Democracy in rigidly authoritarian, female-suppressing, emperor-worshipping Japan? Preposterous, skeptics scoffed after WWII. Here women vote in 1946 local elections.

We're Still the Great Satan

DEBATE IS BREWING OVER HOW TO TREAT Iran. Our enormous success in Iraq has shaken Iran's dictatorial ayatollahs. Already there are hints of appeasing gestures from Teheran, such as a referendum on improving relations with the U.S. The question is: How should we respond to these overtures? Should we cold-shoulder these black-robed authoritarians and make it clear there will be no dialogue until genuine democrats take over? Or should we start negotiations now?

The pro-democracy approach is the right one. Iran's clerical dictatorship is immensely



Though popularly elected, Iranian President Mohammad Khatami is a figurehead who plays diplomatic "good cop" on behalf of Teheran's terror-tollahs.

unpopular. Since 9/11 numerous antigovernment demonstrations by dissatisfied citizens, primarily young people, have rocked the regime. Moreover, Teheran is the world's most active state sponsor of terrorism today. It is working overtime to develop nuclear weapons, and it will soon have the ballistic missiles to deliver them to Europe and, ultimately, the U.S. Despite tactical gestures in the past, Iran's ayatollahs have never wavered in their anti-American, Islamic-extremist, pro-terrorist policies. This crowd is our mortal enemy.

Now that we have the momentum of an

extraordinary victory in Iraq, we should apply pressure to these bloodthirsty fanatics: Bring in genuine democracy; halt and dismantle Iran's nuclear and missile programs; and end now Iran's extensive support of terrorism in the Middle East and around the world.

The ayatollahs, alas, are unlikely to agree to such steps. But the clerics should know that we will not rule out the use of force to cripple Teheran's nuclear efforts.

Some people will shrug their shoulders and say, "So what if Iran gets the bomb? We have enough nuclear firepower to

destroy it many times over." These appeasers miss the point. Just the fact of Iran's having the bomb and the ability to deliver it would give Iran enormous power to cow neighbors and would inhibit any efforts to curtail its multitudinous terrorist activities.

We didn't remove Saddam in 1991, when we could have done so. Let's not make the same mistake with an anti-American, about-to-be-nuclear-armed foe. If we negotiate, our position must be unwavering. And as we talk, we should publicly give encouragement to Iran's growing democratic movement.

Ho-Hum Hack

THE OUTLOOK FOR JAPAN REMAINS BLEAK. THE NEW GOVERNOR of the Bank of Japan, Toshihiko Fukui, has given no indication that he understands why his country has suffered more than a decade of debilitating deflation. Perhaps he will shock us by taking decisive action, but there is nothing in his business-as-usual background to suggest that. His announcement that the BOJ might buy corporate bonds to help companies liquefy? Big deal. He might as well buy Tootsie Rolls. It's not *what* the bank buys that counts. It's *how much*.

Japan's central bank must vigorously turn on the yen printing presses. The nation's economy has been battered by a shortage of yen credit. The signal that would let us know the BOJ has finally



BOJ boss Fukui knows deflationary winds still blow, but he's at a loss as to what to do.

got it right: a yen-gold price of 50,000, up from 39,000.

What about Japanese banks writing off all of their bad loans, as experts suggest? Under current, parched conditions, such a massive liquidation would create such a deadly maelstrom of contraction that it would drag down solvent companies as well. If, however, the BOJ provided sufficient liquidity to Japan's almost-insolvent banking system, the banks could then be pressured into dealing more decisively with their deadbeats, without crashing the economy. The banks' progress in rehabilitating their balance sheets has been real, but glacial.

With yen once again plentiful, the economy would blossom like a desert after a rainstorm.

Too Suddenly Gone

DAVID BLOOM WAS A VERY SPECIAL MAN. MY WIFE, SABINA, OUR daughters and I got to know him when he covered my 1996 presidential campaign. He was a first-rate reporter who did his homework well and asked the right questions (though not always the ones the candidate would have preferred!). He never was one of those who played the "gotcha" game in his interviews or who wanted to show you how smart he was. He was too secure, too grounded for that kind of gamesmanship.

David's enthusiasm was contagious, which made him a delight to be around, especially in subzero weather in Iowa or New Hampshire. He was also trustworthy, a straight shooter who never misled you. This was especially appreciated by my wife and daughters, who were understandably terrified of the media. They could talk to David without feeling their confidences would be betrayed. He loved chatting with them about his twin girls (our two oldest are twins). His pride in all his children was palpable (he and his wife, Melanie, subsequently had a third daughter).

One of my wife's fondest memories of David was going to a toy store somewhere

in Florida during the primary there to get our youngest a Barbie doll. David spotted Sabina and they got into a discussion about the Barbie doll phenomenon, she warning him that he would someday be surrounded by them. One of the things we missed most when I dropped out of the race was seeing David Bloom each day.

We remained friends. Although he wasn't assigned to us when I again tried for the White House in 2000, he made an effort to drop by the campaign bus whenever he could to say hello.

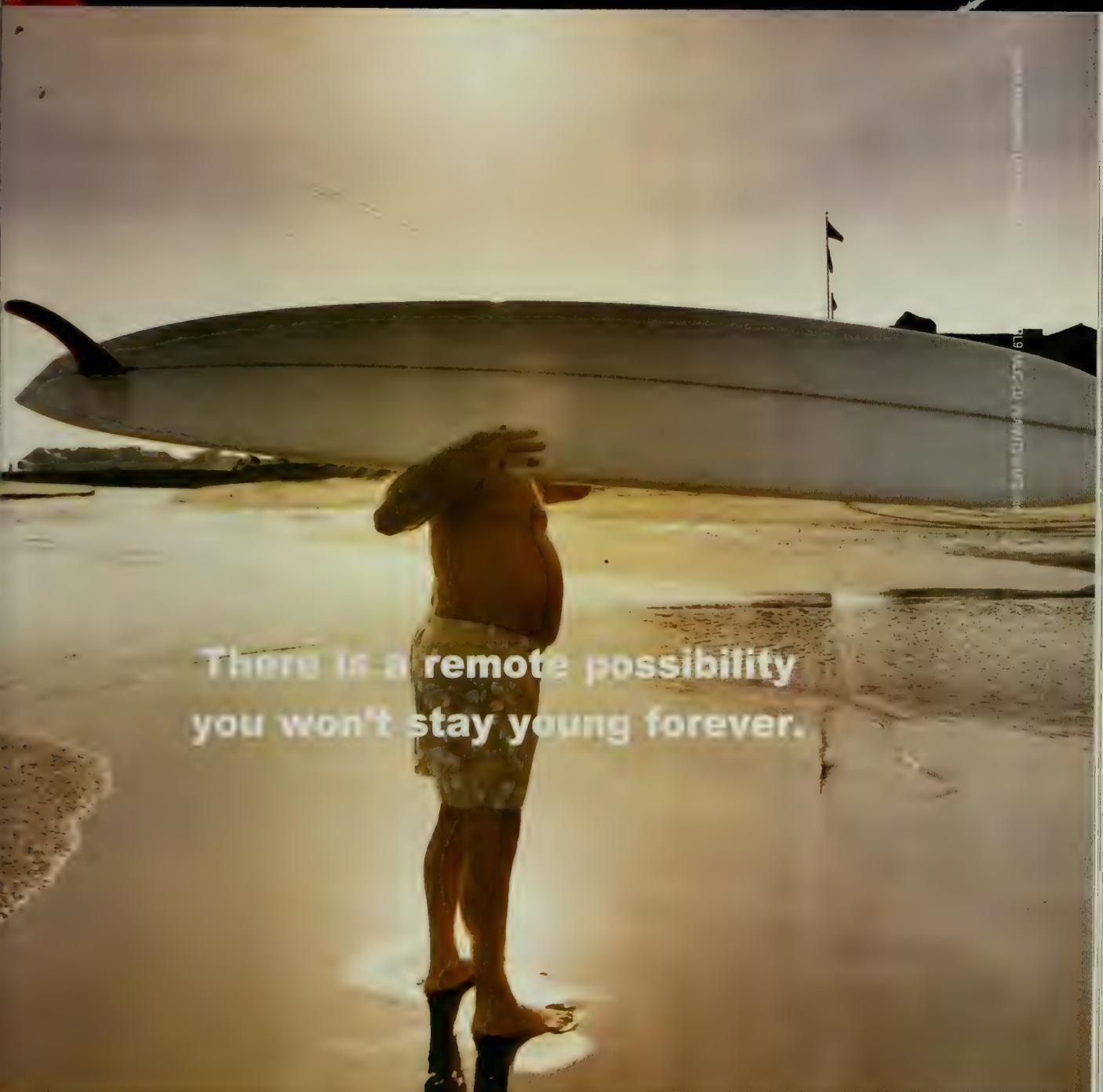
Another fond memory was going to a Yankees game with him a couple of years ago. He was a Minnesota Twins fan and that night they bested the Bronx Bombers. His sheer joy at the upset had the rest of us almost forgetting what team we'd been rooting for.

David had great journalistic instincts. Whenever I ran into him, I enjoyed picking his brain. I always felt I learned more from his insights than he did from mine!

David Bloom was clearly hitting his professional stride with the Iraq war. Like everyone who knew him, our family is grieving, and our hearts go out to Melanie and his three beloved girls. **F**



David Bloom always exuded a warm, generous spirit on oft-cold presidential campaign trails.

A man in patterned swim trunks is seen from behind, carrying a large surfboard under his arm. He is standing on a sandy beach with the ocean and a cloudy sunset sky in the background. The scene is bathed in the warm, golden light of the setting sun.

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OTHER COMMENTS

*Power without legitimacy tempts tests of strength;
legitimacy without power tempts empty posturing.*

—HENRY KISSINGER, *Diplomacy*

Changing of the Guard Nothing transcendent will ever come from Iraq unless Washington takes the mundane preliminary step of destroying the current Iraqi officer corps. There are many other things that the U.S. must do to clear the road to Iraqi democracy, but none is more essential or urgent. If the Bush Administration attempts to leave Baghdad before finishing this task—and it seems naive to believe that the officer corps and army can be purged and rebuilt in “months”—then the odds are good that modern Iraq’s sad, violent history will not end with the death [or removal] of Saddam Hussein. We can be certain that Iraq, and the rest of the Middle East, will make us pay again in blood and tears for our fear of overturning the old order.

—REUEL MARC GERECHT, American Enterprise Institute,
Weekly Standard

Code of Honor I would lay down my life for America, but I cannot trifle with my honor.

—JOHN PAUL JONES (Sept. 4, 1777)

Hey, Big Spenders! No idea in politics has hurt children more than the false and misleading idea that the quality of education is determined by how much we spend. More than 35 years after Congress passed the first Elementary and Secondary Education Act, public school spending per pupil has more than doubled—even when adjusted for inflation—from \$3,331 in 1965–1966 to \$8,194 in 2000–2001. In fact, the federal government has spent more than \$321 billion on education programs since 1965.



*“A word to the wise. When the gods speak, they’d
better say ‘across-the-board tax cut.’”*

Every year, spending on K-12 education by all levels of government exceeds \$400 billion. Yet, citizens must ask, what have we gotten for all this? Fewer than a third of fourth-graders can read proficiently.

No, the problem isn’t—and never has been—money alone. This is just the most tired of all excuses. If there is no accountability, or schools use unproven fads for instruction, it doesn’t matter how much money is thrown at a problem; it will be wasted.

—ROD PAIGE, Secretary of Education, *USA Today*

Bottoms Up The failure to use the last 13 years of low growth to develop a thriving service sector has left Japan deflating itself to death. New thinking about the money supply alone would not bring about the restructuring of a vast industrially based economy too expensive and inflexible to prosper in competition with China and other rising countries. But the big hope for 2003 is that a concerted attack on deflation led by the Bank of Japan might make this essential transition less painful to endure. One economist has likened the Japanese central bank’s reluctance to use the inflation route to a doctor’s denying brandy to a hypothermia victim in case it turns him into an alcoholic. [Governor Toshihiko Fukui] may have to dare to declare happy hour at the Bank of Japan.

—COLIN DONALD, *National Post* (Canada)

Survey Says A National Geographic study released [in November] found that only about one in seven Americans between the ages of 18 and 24 could find Iraq [on a map]. Although 58% knew that the Taliban and al Qaeda were based in Afghanistan, only 17% could find that country. The survey asked 56 geographic and current events questions of young people in nine countries. Americans got an average of 23 correct answers. Mexico ranked last with an average score of 21. Topping the scoring was Sweden, with an average of 40, followed by Germany and Italy, each with 38.

Other findings: When asked to find 10 specific states on a map of the U.S., only California and Texas could be located by a large majority. Only 51% could find New York. On a world map, Americans could find on average only 7 of 16 countries in the quiz. Only 89% of the Americans surveyed could find their own country. Only 71% of the surveyed Americans could locate the Pacific Ocean.

—PAUL RECER, Associated Press

Young at Heart Measure your health by your sympathy with morning and spring. If there is no response in you to the awakening of nature—if the prospect of an early morning walk does not banish sleep, if the warble of the first bluebird does not thrill you—know that the morning and spring of your life are past. Thus may you feel your pulse.

—HENRY DAVID THOREAU **F**

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CURRENT EVENTS

by Lee Kuan Yew, SENIOR MINISTER OF SINGAPORE



Iraq: A Watershed in Post-9/11 World Order

FOR THE 12 YEARS FOLLOWING THE PERSIAN GULF WAR, SADDAM HUSSEIN defied 17 UN Security Council (UNSC) resolutions, many calling for the elimination of weapons of mass destruction. When in November 2002 the Security Council unanimously adopted Resolution 1441, giving Iraq a final opportunity to comply immediately with its disarmament obligations or face serious consequences, most people concluded the UNSC had set course for a showdown if Saddam kept playing games. But Iraq continued to drag its feet. To placate public opinion, Britain's Prime Minister Tony Blair and other leaders supporting the U.S. decided to seek a second UN resolution.

In a series of unexpected turns, however, French President Jacques Chirac teamed up with German Chancellor Gerhard Schröder and induced Russian President Vladimir Putin to join them in a stand against starting any military action before the UN inspection process had been exhausted. Chirac wanted Europe—led by France, with Germany's support—to act as the counterweight to America, blocking any unilateral use of force.

Without that second resolution, the U.S. has had to pay a heavier political price for the war. The French and Russians must have known that with thousands of troops positioned around Iraq, President Bush had to proceed. Those forces could not sit idle through the hot summer. And returning them to America could have been a disaster for U.S. stature and influence, not to mention the President's credibility. Mr. Bush was not deterred by French diplomatic maneuvers and ordered an attack on Mar. 19. Twenty-one days later U.S. Marines drove into central Baghdad, where they helped jubilant Iraqis topple a giant statue of Saddam.

Being Put to the Test

Now comes the hard part: managing the transition to a post-Saddam Iraqi government without coalition troops being seen as occupying conquerors. On Apr. 3, French, German and Russian leaders made conciliatory statements and expressed hope for an early coalition victory. They want the UN to play the lead role in postwar Iraq. But President Bush and Prime Minister Blair at their Apr. 8 meeting in Belfast affirmed the "vital role" they expect the UN to play. Having paid the price in blood and treasure to rid Iraq of Saddam, the U.S. wants a dominant say in how to make the transition from an Iraq under coalition military control to an Iraq governed by Iraqis.

Before locking horns on what the UN's role is to be, both sides should step back and reflect on the common threat they face from al Qaeda and other Islamic terrorist groups. When traditional partners of the Atlantic Alliance—France and especially Germany—

continue publicly to oppose the U.S. over Iraq, they help Islamic extremists recruit more terrorists. If the UN is not involved in post-war Iraq, Islamic extremists will exploit what will be portrayed as an American/British colonial occupation of Iraq. If, on the other hand, the Atlantic Allies get their act together in the UNSC, it will signal to the world that they have set aside their differences to work for a higher cause—that of bringing peace and stability to the Mideast.

Tony Blair has eloquently voiced European misgivings over the issue of "double standards," the unenforced UN resolutions pertaining to Israel and the Palestinian territories, that must be addressed. Ceaseless television images of bloodletting in the West Bank and Gaza Strip have aroused Muslims worldwide against Israel and America. Progress in President Bush's "road map for peace" could reduce this anger.

Before the war started, commentators predicted violent protests at its onset by Muslims in Asia. Indonesia—the world's largest Muslim country, with approximately 200 million Muslims—has maintained order. President Megawati Sukarnoputri has condemned the war, but security forces have not allowed demonstrators to get out of hand. Malaysia's Prime Minister Mahathir Mohamad has denounced the war, urging members of the Non-Aligned Movement, the Organization of the Islamic Conference and the UN to condemn U.S. aggression. But Malaysian police have not allowed protesters to harm Americans, Britons or Australians.

China never threatened to use its UNSC veto. Japan, South Korea, the Philippines and Singapore are part of the U.S.-led coalition. When the ten foreign ministers of the Association of Southeast Asian Nations met as the war started, they issued no joint statement explicitly for or against war on Iraq. All governments—Muslim and non-Muslim—know that after the war is over and the noise of antiwar protests has subsided, they will need U.S. trade, investment and technology. No government is willing to sacrifice its national interests for Saddam. Having seen TV images of joyous Iraqis in Baghdad celebrating Saddam's downfall, most in the region are quietly relieved. The extremists, however, will continue their protests, focusing on new issues.

Now, suddenly, a mysterious viral epidemic, SARS (severe acute respiratory syndrome), is spreading fear throughout East Asia and forcing people to concentrate less on Iraq and more on this unseen danger to their lives and economies.

The war in Iraq marks a watershed in the post-9/11 world order. France and Germany opposed the U.S. Their opposition splintered NATO and the EU; the other members, however, recognized that America is the only superpower and that it is not in their best interests to weaken it. **F**

Forbes
magazine

Lee Kuan Yew, senior minister of Singapore; Paul Johnson, eminent British historian and author; and Ernesto Zedillo, director, Yale Center for the Study of Globalization, former president of Mexico; in addition to Forbes Chairman Caspar W. Weinberger, rotate in writing this column. To see past Current Events columns, visit our Web site at www.forbes.com/currentevents.



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Scott Kriens

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DIGITAL RULES

By Rich Karlgaard, PUBLISHER



IPO Winter

TWO OLD HATS WHO KNOW A FEW TRICKS ABOUT STOCKS—Warren Buffett and John Bogle—say the U.S. equity markets are headed for a long period of underperformance. This death march might last a decade or longer. Most supply-siders and the odd super bull like David Elias (*see p. 146*) could not disagree more. Which camp is right?

Buffett looks at the historical performance of stocks and sees an unrepeatable period. The S&P returned about 15% annually, counting dividends but net of inflation, during the 1982-2000 period. Returns for the longer 1900-81 period averaged half that. Buffett thinks the 2000-2015 market will regress, like a downdraft off a mountain, until it aligns with history's average. That means returns, net of inflation, could average out to perhaps only 4%. John Bogle, founder of Vanguard, uses different data to make the same point. The market traded at 8 times earnings in 1981 and now trades in the mid-20s. Bogle reminds us that the average market P/E for the 20th century was 15.

The bulls' argument goes like this. Technology has stepped up the rates of innovation and productivity. The world is lurching, fitfully, toward capitalism. For every al Qaeda bomber or San Francisco wannabe, there are a thousand Chinese who love enterprise. Put these two trends together—technology and capitalism—and you get faster growth and justifiably higher P/Es. To a bull, the market's enemy isn't boom-and-bust cycles, but bad economic policy.

My rooting interest is with the bulls. But I am reminded that when one bets against Buffett and Bogle, one stands to lose his house, his shirt and his reputation. So let's give these two wise owls the benefit of the doubt and suppose, for at least one editorial cycle, that they are right.

I would never bet against the U.S. economy in the long run (and neither would Buffett or Bogle). Technology and capitalism make sparks fly in America as they do nowhere else. But what happens if the bulls are right and our GDP growth rate bounces back to a lively, noninflationary 4% ... yet the bears are right as well, and the market doesn't give a fig about growth because it cares only about meeting a statistical average? This good/bad outcome is entirely possible.

What It Means for Silicon Valley

Initial public offerings in 2002 numbered 79, the lowest level since 1979. Worse were the paltry 19 IPOs of venture-capital-backed companies. This latter market is almost binary—it's either on or off. When Nasdaq booms, the switch is turned on and venture-backed IPOs become a daily occurrence. But when Nasdaq tanks, these speculative technology IPOs dry up. Entire quarters can go by with none at all. In this third year of Nasdaq's discontent, the

IPO factory known as Silicon Valley sees only three IPOs in its fabled pipeline: Google, Salesforce.com and Crystal Decisions.

This leads me to make a sour prediction about Silicon Valley. If Buffett and Bogle are right about the broader market—15 years of lousy returns—then Silicon Valley had better get used to a trickle in IPOs for many years. Remember, the IPO market is binary. Sure, there might be a bumper crop of public offerings every now and then, just as there may be a year or two when the Nasdaq grows in double digits. But we will come to define "bumper" by the standards of 1986, not 1995-2000.

As bad as things are in Silicon Valley now, the place is not prepared for a long IPO drought. That's because what Silicon Valley is *really* good at, in addition to turning science into technology, is starting companies and taking them public. When the game is Speed-to-IPO, Silicon Valley is the Masters winner, the Super Bowl champ and the Olympic gold medalist rolled into one. Silicon Valley has every resource you could ever want to start a company and take it public fast: universities eager to share their intellectual capital, entrepreneurs, venture capitalists, investment bankers, commercial bankers who will actually lend, p.r. mavens with a good line of bull and a social hierarchy that puts a Larry Ellison at the top of the heap. As Hollywood is to films, Silicon Valley is to tech IPOs.

The New Game Is the Old Game

Problem is, being the world champ at Speed-to-IPO won't do Silicon Valley much good if the broader stock market underperforms for 15 years and the binary IPO market turns off. Think about this for a second. If IPOs become scarce, how does a tech startup secure enough cash to stay alive? Brace yourself: the old-fashioned way—with profits! That's right. The new game is the old game of Speed-to-Profits!

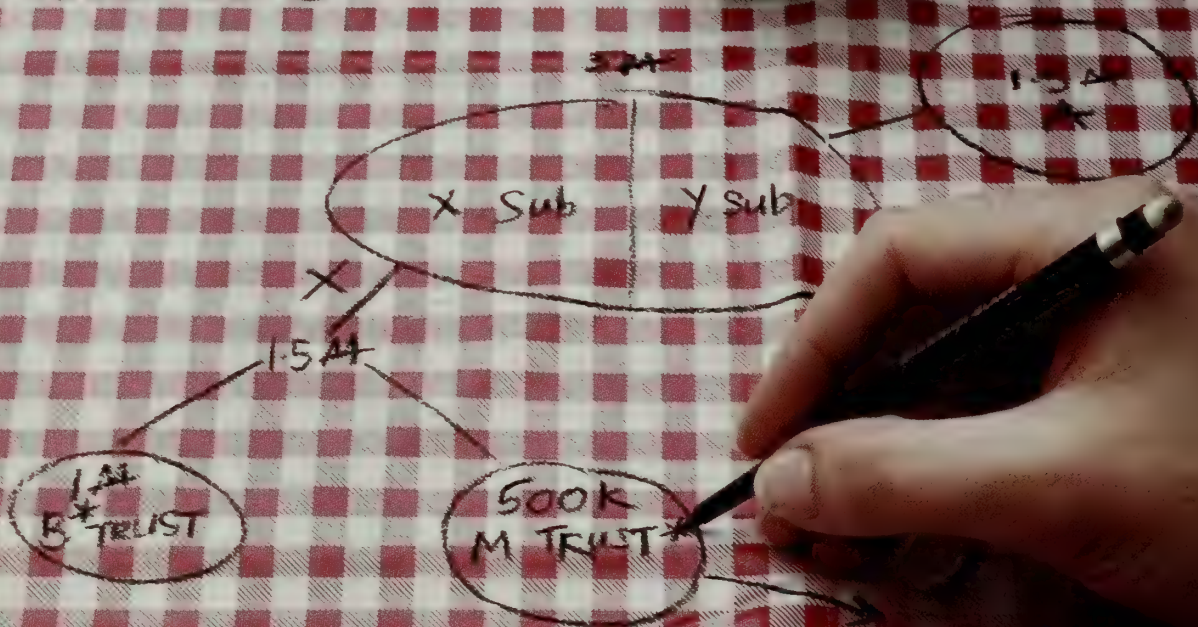
Question: Will Silicon Valley remain the best place in the world to do a tech startup if Speed-to-Profits counts more than Speed-to-IPOs? Maybe. Silicon Valley is like Manhattan: Do not count out its density of talent, ambition and audacity. Still, absent IPOs, I can say with certainty that Silicon Valley will slip a few notches relative to other tech incubators.

Silicon Valley's absurdly high costs of doing business—\$1.5 million doll-size houses, commercial rents that exceed midtown Manhattan's—were a blip, a gnat, a rounding error when a quick IPO was the game. But in the new/old game of profits, overhead costs will matter much more. That's why I think Silicon Valley will face increased competition from cheap China, cheap India and cheap university towns across the U.S. **F**



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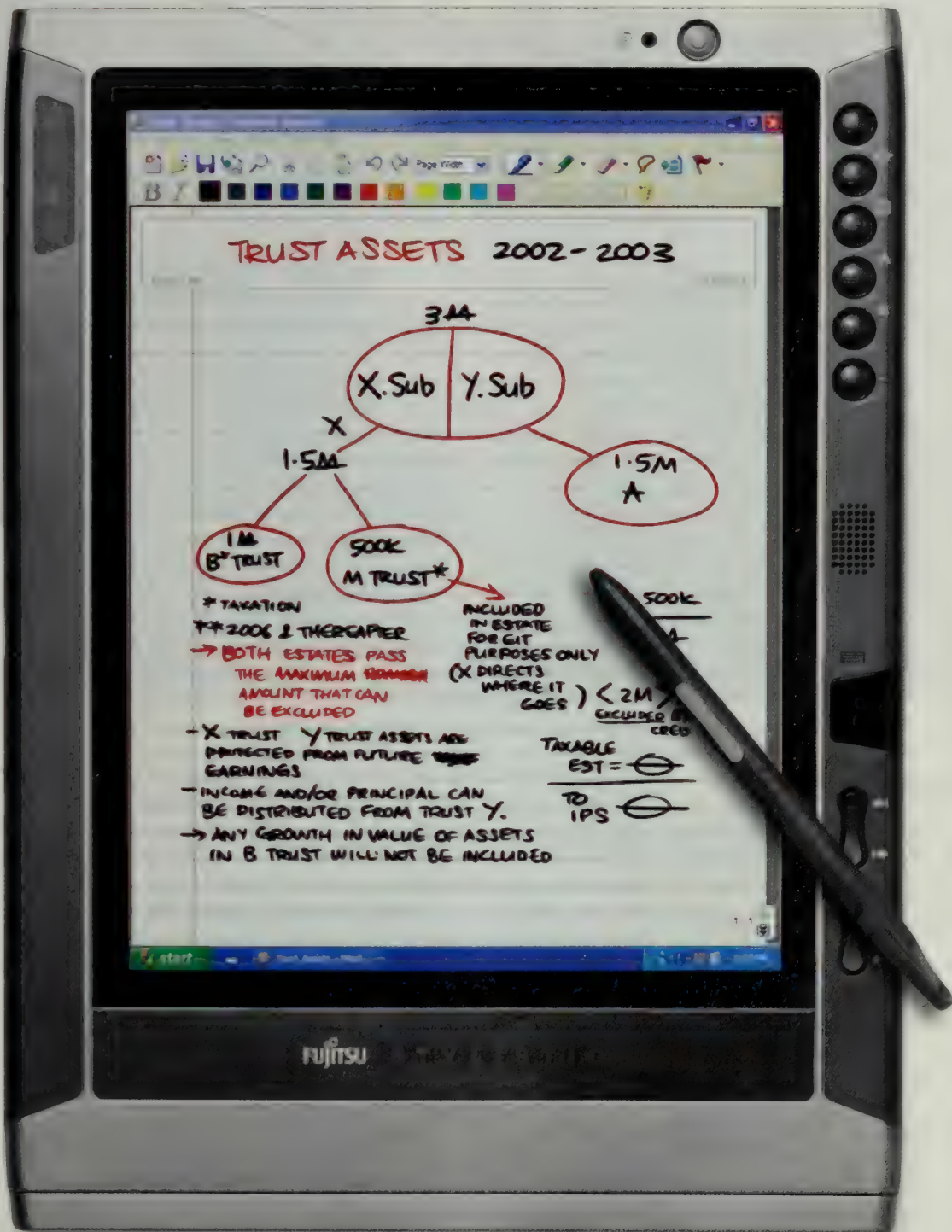
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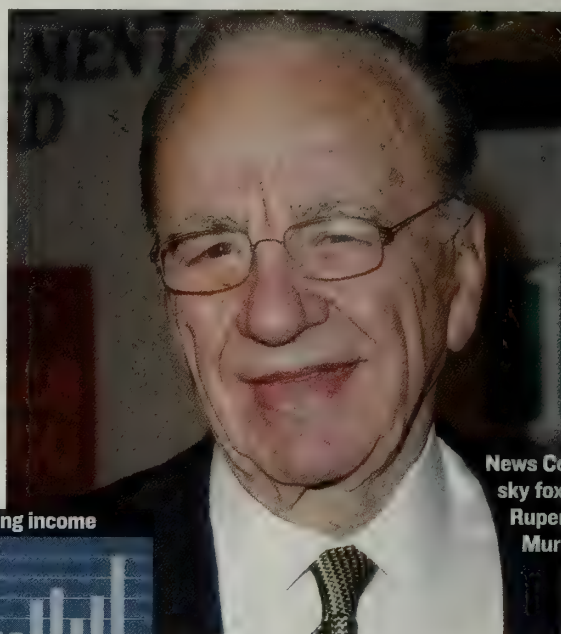
Rupert Uber Alles

THINGS ARE LOOKING UP NOW THAT Rupert Murdoch has captured DirecTV, the U.S.' largest satellite television outfit. He's buying a controlling stake from General Motors for \$6.6 billion. Murdoch's **NEWS CORP. (27, NWS)** will find DirecTV a perfect complement to his vast globe-girdling satellite businesses, in Asia, Europe and Latin America (see p. 58).

From there Murdoch's content empire will only get stronger. News Corp. owns 81% of publicly traded Fox Entertainment Group, whose cable outlets, such as in-your-face Fox News (now the top U.S. cable news provider) and regional sports networks, are growing rapidly. And the Fox broadcast network bounced back from a dismal season last fall to win February's ratings sweeps and emerge as the TV industry's hottest purveyor of low-budget reality shows with *Joe Millionaire* and *American Idol*. At the 20th Century

Fox studio a string of modest-budget airhead hits like *Dude, Where's My Car?* and *Like Mike* have contributed to 18 months of sustained profits—a rare phenomenon in Hollywood.

Though a cover price war in the U.K. has left Murdoch's newspaper division ailing, his U.S. television stations are faring better. In many markets Murdoch controls both the UPN and Fox affiliates, giving him duopoly power. Those combined outlets have recently integrated their operations and are poised to benefit as advertising increases. Now that the Iraq war has subsided, look for long-



Operating income



term ad strength and impressive profit-margin expansion. Even though Murdoch paid a premium for DirecTV, it will prove well worth it when News Corp. stock, way down from its \$67 high in early 2000, soars anew.

—Brett Pulley

Collision Course

BUSINESS SEEMS SHINIER THAN A NEW hubcap at **ADVANCE AUTO PARTS (48, AAP)**, now the number-two auto parts chain in the country behind AutoZone. Sales for 2002 were up 31% to \$3.3 billion, and earnings quadrupled to \$75 million (if you count a one-time charge for wiping out debt, it was \$65 million).

Amid the selling surge in windshield wipers and antifreeze, the stock, which had slumped to \$37 by Feb. 25 from a high of \$62 on May 15 of last year, is on the way up again.

But there's less than meets the eye here at acquisition-mad Advance, whose purchases of Western Auto Supply (from Sears, Roebuck) and Discount Auto Parts helped triple its number of outlets to 2,435 since the beginning of 1998.



AutoZone is cheaper—trading at 17 times trailing earnings, compared with Advance's 23. And Advance, along with a subsidiary, has nasty legal exposure to lawsuits claiming damage from asbestos in brake and clutch parts and in roofing material. Indeed, it says in its filings that the number of cases in which it or the unit "has been named as a defendant has increased in the past year." AutoZone, for its part, says its exposure to these suits is "insignificant."

Given the eagerness of the U.S. court system to award huge sums to asbestos plaintiffs who are not even sick and to view any remotely connected defendant as the responsible party merely if it happens to be solvent, this liability has to be viewed as a financial abyss. Advance says damages on one or more of these claims not covered by insurance could materially hurt operating results and liquidity.

Insider deals should also give investors pause. The company is paying chairman Nicholas Taubman rent for a

distribution center, an office-and-warehouse facility, another warehouse and 15 stores; it leases its headquarters from a company owned by two trusts benefiting one of Taubman's children and one grandchild. The company says those leases represent a tiny fraction of its total stores. It declares in filings that it is paying above-market rent for the Taubman properties. How much above? Advance says that it does "not believe the amount of such difference is material," according to its filings.

Also, Advance is pretty free with its shareholder capital when it comes to making insider loans. It lent a total of \$750,000 to seven executives to buy company shares. Separately, Advance lent \$900,000 to Chief Executive Lawrence Castellani to buy company stock. It also lent \$1.3 million to its vice chairman. The company says all the loans have been repaid.

Short the stock, cover at \$35.

—Elizabeth MacDonald

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By John Allen Paulos, MATHEMATICS PROFESSOR AT TEMPLE UNIVERSITY, AUTHOR OF *INNUMERACY* AND *A MATHEMATICIAN PLAYS THE STOCK MARKET*.

Is Insider Trading So Bad?

Look at elementary principles of probability, and you'll discover it's not.

IT'S NATURAL TO TAKE AN INDIGNANT STANCE TOWARD THE corporate fraud and excesses that have dominated business news the last couple of years. This is especially so if you've lost your shirt on a stock like WorldCom, as I unfortunately did. Yet an elementary probability puzzle suggests that one argument against insider trading and stock manipulation—that it costs investors money—is not quite as compelling as it seems. (There are, of course, other arguments against these practices.)

The puzzle involves those standbys of probability professors—coins, both fair and biased. It asks: Which of the following two situations would you prefer to be in? In the first one you're given a fair coin to flip and are told that you will receive \$1,000 if it lands heads and lose \$1,000 if it lands tails. In the second, you're given a very biased coin to flip—you don't know in which direction it's biased—and must decide whether to bet on heads or tails. If it lands the way you predict, you win \$1,000 and, if not, you lose \$1,000.

Although you might prefer to flip the fair coin, your chances of winning are 50% in both situations, since you're as likely to pick the biased coin's "good" side as its "bad" side.

Now consider a second pair of schematic bets involving stocks, entities whose behavior is usually indistinguishable from that of coins. In the first situation you buy a stock that is being offered in a randomly fluctuating market and your earnings will be \$1,000 if it rises the next week and -\$1,000 if it falls. (In the short run, probabilities of different outcomes with stocks are pretty symmetric.) In the second, you're told that there is evidence of insider trading and manipulation and that this will bring about—you don't know which—either a \$1,000 rise or a \$1,000 fall in the price of the stock the next week. Given this information, you must decide whether to buy or sell (that is, short) the stock. If you guess correctly, your earnings are \$1,000 and, if not, they're -\$1,000. Once again, your chances of winning are 50% in both situations.

In each of these pairs the unfairness of the second situation is more apparent than real. Although cognitive psychologists know that most people try to avoid them, you have the same chance of winning in the second situation as you do in the first. Insider trading and stock manipulation are wrong for other reasons (the undermining of investor confidence and,

arguably, the disproportionate share of returns accruing to insiders), but I maintain that they can be viewed as simply two among the many unpredictable factors affecting the price of a stock. Depending on investors' actions, they're as liable to cut one way as the other.

Of course, insider trading and stock manipulation are not equivalent offenses. Legal theorist Henry Manne goes further and advocates the outright legalization of insider trading, arguing that it would make for more efficient markets. Even if the law were to be liberalized along these lines, it would not shelter a looter who cooked the books and then sold his overvalued shares to innocents. It probably would decriminalize the actions of ImClone's Sam Waksal and

other users of inside information.

The fact is that there are insurmountable logical problems with the very notion of insider trading. It's illegal for an insider to buy on learning of his company's secret scientific breakthrough. But if this same person changes his plans to sell the stock after finding out about the breakthrough, he has violated no rule.

When I fall into discussions with woebegone investors in WorldCom and other infamous companies, I hear self-righteous condemnations of cooked books, manipulated earnings and analyst/company collusions. In a sense, however, these investors merely picked the wrong coin. A few years ago they were just as likely to have profited enormously from cooked books.

As in many other areas of life, people are much quicker to see themselves as victims of bad guys than as beneficiaries of bad guys.



"The unfairness of betting in a rigged market is more apparent than real—if you are free to speculate in either direction."



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imagination at work





Dr. Michael M.
Mann



Peter
Bendor-Samuel

OUTSOURCING:

The Holy Grail of Business Transformation?

Market leaders and savvy contenders in nearly every industry are turning to outsourcing as a way to cut cost leverage expertise and quickly gain competitive advantage.

But is outsourcing really the Holy Grail of business transformation? Two leading gurus on the cutting edge of business transformation beg to differ on outsourcing's alluring promise.

Peter Bendor-Samuel is founder and CEO of the Everest Group (www.everestgrp.com), a Dallas-based outsourcing consulting firm.

Dr. Michael M. Mann is chairman and CEO of EnCompass Knowledge Systems Inc. (www.encompassknowledge.com), a developer of advanced software for corporate governance and knowledge-intensive enterprises.

Outsourcing positions an organization so it can proactively embrace change as an opportunity.

— Peter Bendor-Samuel

Peter Bendor-Samuel: Is outsourcing the Holy Grail? It seems that way for many organizations. It is definitely becoming a key strategic tool to address transformational change. It positions an organization so it can *proactively embrace change as an opportunity*.

Outsourcing enables an organization to leverage the outsourcing provider's advantages — and it allows the transformation to happen faster, with less risk and investment. It ensures the organization will have resources to cost-effectively run its existing business while it commits capital and effort to bring about change and engage in initiatives designed for competitive advantage. Mike, how can you possibly disagree with that?

Michael M. Mann: Peter, you make a lot of sense, but the concept of "a Holy Grail" for enterprise transformation is simply naïve. Seeking a universally applicable organizational truth and remedy for a spectrum of often complex, often poorly understood and poorly articulated ills is just unrealistic, and possibly hazardous.

Don't get me wrong: Outsourcing is an important weapon for the progressive manager, but all too often it is done for the wrong reason, in inappropriate circumstances and with inadequate planning. In these scenarios, outsourcing can lead to the institutionalization of inappropriate solutions, misalignment of organizational and business processes with infrastructure, and harmful intermedia-

tion in key relationships with customers, partners and vendors!

PBS: Obviously, any initiative must begin with an assessment of which functions should be retained and ensure that in-house knowledge is either kept or transferred to the provider. And remember that while outsourcing can be used solely to achieve cost savings or streamlining, its higher use is as the enabler of business transformation.

MMM: Yet outsourcing can actually exacerbate the individual and cultural issues associated with embracing change. People tend to reject intrusion into their "turf," particularly the intrusion of "outsiders."

PBS: An outsourcing provider is experienced in running the process and managing change in different scenarios. Without outsourcing, even if you motivate your employees to become change agents, you still have skill gaps and some lack of decision-making expertise.

Yet outsourcing can actually exacerbate the individual and cultural issues associated with embracing change.

— Dr. Michael M. Mann

MMM: But while customers of a firm using outsourcing customer support services may be satisfied with the response they receive, the company's internal team may not benefit from customer interactions that can provide vital information to drive product development and services.

PBS: Look Mike, anything this transformational has some risk. An outsourcing relationship succeeds only when the buyer and provider share knowledge and work together. The potential upside with outsourcing makes its risks worth it, and you ignore it at your peril. Believe me, if you don't outsource, your competition will.

UNISYS

Imagine it. Done.

By Michael Roney

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SEPTEMBER 2, 2002

Monarch's Market



Facing a new world order: King Abdullah.

THE IRAQ WAR HAS DEALT A BLOW TO PARTS OF THE Jordanian economy—and King Abdullah II's plan to boost it. The transport sector suffered a drop in business of between 25% and 50% since Mar. 20, according to the *Jordan Times*. Imports from Iraq, Jordan's largest trading partner, have ceased. Iraq had been Jordan's sole supplier of oil, discounted to 40% of market value, since the 1991 Gulf war, when Jordan supported Saddam Hussein. Kuwait and the United Arab Emirates

are stepping into the breach, sending oil to Jordan at discounted prices, and Saudi Arabia says it's sending oil for free.

Still, investors see opportunity. Trading volume on the Amman stock exchange has picked up in the last few weeks and the index rose 3.9% in March. One boost of confidence came in mid-February, when Calpers, the largest public pension fund in the U.S., added Jordan to its emerging markets investment list. Jordanian banks and insurance companies have also made commitments to invest in the Jordan Fund, a \$50 million private equity fund that was the brainchild of King Abdullah. It should prosper if Jordanian companies capture some of the spoils of reconstruction.

—Kerry A. Dolan

DECEMBER 9, 2002

Lutz's Last Word?

GENERAL MOTORS VICE CHAIRMAN ROBERT A. LUTZ IS feeling vindicated, at least for now. Lutz was sued last fall by a former business partner, Briggs Cunningham III, who contended that Lutz, GM and others conspired to force him out of a high-profile venture to develop a \$250,000 sports car under the fabled Cunningham brand. On Apr. 7 a Kentucky judge dismissed the suit on the grounds that charges were brought in the wrong state. Cunningham's attorney, Mark Hayden, says he'll likely refile in Michigan.

GM won a more definitive ruling from U.S. District Court Judge Karl S. Forester. He said Cunningham offered no proof that GM interfered in his business deal with Lutz. Hayden says his client will probably appeal. Meanwhile, the Cunningham project remains dead, and Lutz has turned his attention to another fantasy car: GM's Cadillac Sixteen.

—Joann Muller

Flashbacks

85 YEARS AGO IN FORBES/AUGUST 24, 1918

Turning Point

The permanent turn in the war appears to have finally come. It has come spectacularly, almost unexpectedly. Without national egotism, America can legitimately feel that her sons have been the deciding factor. All accounts agree that the youthful fighters from the youthful country overseas

possess a verve, a daring, an aggressiveness, a recklessness, an ingenuity, an individuality not quite matched by other troops. Our rejoicing over the brave showing made by our boys must not be permitted, however, to slacken our efforts. Let us, therefore, loyally support the President and the War Department in their gigantic programs.



60 YEARS AGO IN FORBES/APRIL 15, 1943

The War at Home

A novel gas mask for autos, capable of converting any closed vehicle into a ventilated, gas-proof shelter, is an Army invention designed to protect car-riding civilians from possible enemy gas attacks. The device is attached to the engine.

10 YEARS AGO IN FORBES/FEBRUARY 15, 1993

International Law and Order

The problems involving Saddam Hussein, a new world order and a world police force are all inextricably intertwined. A new world order is a noble and vitally necessary condition for the future. Quite simply, it means that the U.S. and other democratic nations agree to be governed by a rule of law whereby any country breaking that law is treated much as criminals are in each country: They are tried and, if found guilty, punished. Applying this on a world scale means that we could gain what we had hoped the United Nations would achieve but has not: global law, breaches of which will be punished swiftly and with certainty.



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NOVEMBER 25, 2002

Bad Dream

OUR STORY LAST FALL CAST A SKEPTICAL eye on AmeriDream Entertainment's grandiose plans to build a \$200 million studio complex, rescue Social Security and health care, and offer a college tuition payment plan using investments in risky municipal tax lien certificates. Shortly after our story appeared, Chief Executive Lang Elliott issued a press release demanding FORBES print a retraction. Then AmeriDream fired its corporate attorney, Kenneth Eade, and he sued Elliott for defaulting on a \$500,000 promissory note. In April Elliott resigned. Not one of the lofty plans has gone anywhere. Eade still faults Elliott, who said to FORBES: "I was not happy with what you guys did the last time, so that's all I'm going to say."

—Seth Lubove

MARCH 5, 2001

Cheating Gets Tougher

IN APRIL THE INTERNAL REVENUE SERVICE finally announced a crackdown on a convoluted tax dodge FORBES exposed two years ago—the Irish employee-leasing company scheme. The IRS has put the scheme on a list of abusive shelters it plans to challenge.

The scheme: A dentist, doctor or small-business owner becomes an "employee" of a foreign (usually Irish) leasing company, and then his services are leased back to his business or practice, which deducts every penny it pays as an expense. But the professional only declares part of that payment as current income, diverting the rest of it into an offshore trust as "deferred compensation." Normally, an employer can't deduct deferred pay until it's paid to the employee and reported on his tax return.

In one case the IRS is now pursuing, a California company deducted \$775,000 paid to an Irish leasing company for the owner's services, while he reported just \$250,000 of that as income. The IRS says dozens more audits are also under way. What took so long? The IRS has no comment.

—Janet Novack



Bathing in optimism
Jürgen Bartels

JANUARY 21, 2002

Bartels' Bet

WHEN WE LAST CHECKED IN, ETERNALLY optimistic hotelier Jürgen Bartels was planning a \$1.2 billion renovation of his London-based chain of 141 hotels. Bartels' plan: Have 36,000 rooms ready for the travel upturn. Since then bank lenders have dragged their feet, and fewer partners than Bartels had hoped for have ponied up refurbishment costs. Occupancy at the Méréidien chain slipped from 70% in 2001 to 67% in 2002, while revenue per available room stayed flat at \$109. Bartels claims he's finally got the funds to refurbish seven London hotels. The 1,000-room Cumberland in London, renovated for \$114 million, will relaunch in August.

—Richard C. Morais

APRIL 14, 2003

Keeping Her Job



Survivor: DirecTV's
Roxanne Austin

LAST MONTH WE REPORTED ON DIRECTV President Roxanne Austin's struggle to make the nation's largest satellite operator a solid business despite the whiplash of an imminent takeover battle. Just a few days after our story ran, General Motors accepted Rupert Murdoch's \$6.6 billion bid for a 34% equity interest in its Hughes Electronics unit, which owns DirecTV. As part of the deal, Austin gets to keep her job.

—Dorothy Pomerantz



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Rupert's Next Problem

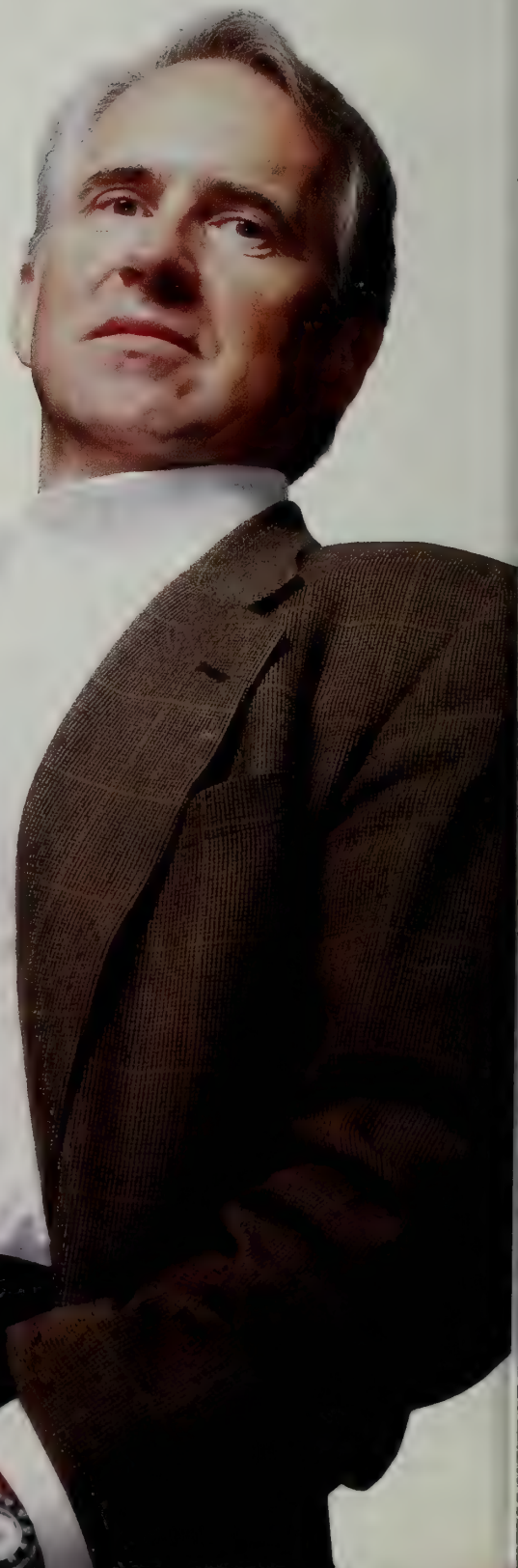
To make the DirecTV deal work, News Corp.'s chairman must deal with a shrewd operator named **MARK PAGON**.

BY NATHAN VARDI

HE'S CONFIDENT HE CAN DEAL WITH THE REGULATORS AND the newly feisty cable companies offering lots of digital services. He is certain he can also easily soothe shareholders furious over his tripling debt at Fox Entertainment Group. But after he gets approval for his \$6.6 billion deal to acquire a controlling stake in Hughes Electronics and satellite television leader DirecTV, Rupert Murdoch will have to jump one more hurdle: Marshall (Mark) Pagon.

The 47-year-old runs a satellite TV reseller that's $\frac{1}{150}$ the size of News Corp. (in terms of market cap). Pegasus Communications of Bala Cynwyd, Pa. has \$1.5 billion in debt, hard assets totaling just \$92 million and a financial history that includes only one profitable year, in 1995. But since Pagon (pronounced, "pagan") owns a majority of the voting stock and 22% of Pegasus' common, he has something Murdoch needs: 11% of DirecTV's 11.4 million subscribers and exclusive rights to distribute some of DirecTV's services to 8.2 million rural households in 41 states, where many homes—unreachable by cable—have dishes.

Murdoch knows this. "[Pegasus] is a problem that has to be cured," he conceded during a conference call after the Hughes deal was announced. "How



ve do it I don't know." Pagon can hardly contain his glee. "I am hopeful a change in DirecTV's ownership will help us," he says.

Meaning: extricate him from four years of costly legal wrangling with DirecTV. Pagon paid as much as \$2,900 for each of Pegasus' 1.3 million customers, who generated nearly all of its \$902 million in 2002 revenues. Those subscribers are the subject of five suits and a fistful of counterclaims between Pegasus and DirecTV; the squabbles have allowed EchoStar to munch at DirecTV's rural dominance. Solving the disputes might also help Murdoch overcome some of the skepticism that drove down Fox's stock 17% and News Corp.'s by 6% the day after the deal was announced.

An erudite Philadelphia native, Pagon quit a doctoral program in economics at MIT to become an investment banker. In the early 1980s he helped rural cable entrepreneurs, like Adelphia's John Rigas, finance their expansions. Then, deciding to deal himself in, he cofounded Cable Management Associates, buying and expanding systems to serve customers in West Virginia and North Carolina before selling in 1988 for \$200 million.

He founded Pegasus in 1991 to turn around troubled rural cable operators. He later picked up Fox Broadcasting affiliates in places like Scranton, Pa. and Jackson, Miss. A year later Pagon changed course after learning that Hughes was setting up a home satellite service to be financed partly by franchising rural areas through the National

Rural Telecommunications Cooperative; its members would fork over \$100 million, plus 5% of future revenues, for the right to distribute Hughes to 9 million rural households. Pagon paid \$5 million to get the DirecTV rights for a territory comprising 500,000 homes in four New England states.

Pagon started thinking bigger. In 1996 he took Pegasus public, using its rapidly rising stock price to make 50 or so acquisitions, including a \$1 billion deal for rival consolidator Golden Sky Holdings, giving him control of 83% of DirecTV's exclusive rural areas. He also amassed a network of 3,000 vendors, like Acme Satellite in Klamath Falls, Ore. and Cosmic Satellite TV in Alamogordo, N.M. For a brief, shining moment in March 2000, Pegasus' market cap hit \$3.4 billion.

But problems lurked. After its 1999 acquisition



PRODUCT PLACEMENT

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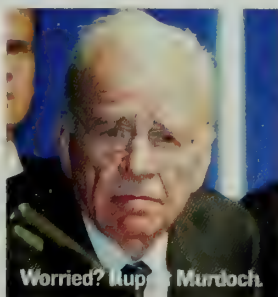
The Iraq war has been very good for AMX Corp., a publicly held tech company in Richardson, Tex. Its flagship product, a kind of universal touch-screen remote panel, has been at the fingertips of President Bush, Defense Secretary Donald Rumsfeld and the U.S. military throughout the Iraq invasion. Better yet, after the screens were pictured in magazines and newspapers, with Bush and Rumsfeld sitting in front of them, orders rushed in from government organizations like the National Security Agency. Sales inquiries are up 20% since the start of the war.

The screen retails for between \$1,200 and \$12,000 and is encoded to control up to 30,000 otherwise incompatible devices. At Camp David, Bush can use the AMX system to change camera angles during a videoconference with General Tommy Franks, download reconnaissance photos and even adjust lighting.

Chief Executive Robert J. Carroll didn't even know the military was using the device until the company's tech help line got calls from mobile command centers in Iraq (the screens are sold through dealers).

A good comeback for a company that nearly went bust two years ago. AMX, which lost \$5 million on \$87 million in sales last year after restructuring charges, stumbled when it changed its name to Panja in 1999 and tried to peddle downloadable music. "It turned out to be a dumb idea," says Carroll, and the firm reclaimed its old name and returned to selling control systems.

AMX panels are used mainly in meeting rooms. Carroll hopes the presidential plug will boost sales for home use, now only 15% of its market. Said an AMX exec: "Thank God Saddam didn't show up in front of one of our screens." —Dirk Smillie



Worried? Rupert Murdoch.

of United States Satellite Broadcasting Co., which had satellite rights for premium channels like HBO and Showtime, DirecTV refused to offer the new fare to Pegasus, unless it received more than its 5% cut, saying the original deal didn't cover such programming. Pagon refused to renegotiate terms, so DirecTV started selling the premium channels to Pegasus' customers directly, causing the NRTC to sue DirecTV for interfering with the NRTC's contract. That killed off any remaining civility. The NRTC, Pegasus and DirecTV filed claims and counterclaims against one another, disputing the length of Pegasus' original contract with DirecTV and whether Pegasus had the right of first refusal to acquire comparable rights when it ended.

The fistfights have been costly. Pegasus has spent \$37 million on lawsuits in the last two years.

Pagon says he has also been unable to coordinate a viable defense with DirecTV against the encroachments of EchoStar's satellite service, whose market share increased from 39% to 42% in the last year, at DirecTV's expense. The two sides have tried to work together on some issues, agreeing to bundle all DirecTV programming on one bill; Pegasus sends about 90% of the \$100 million it collects annually from premium channels to DirecTV. "It's kind of like being estranged from your wife, but you have kids so you have to relate," explains Pagon.

The results have been ugly. Pegasus had a net reduction of 73,000 subscribers last year and saw its S&P credit rating downgraded two notches to CCC+ in January. It has consequently moved into defense mode, shifting away from an emphasis on

subscriber growth to narrow its 2002 losses of \$155 million. Its market capitalization has plunged to a recent \$92 million.

So what's Murdoch going to do? Pagon is already part of the Fox family, having run affiliates since 1991. Murdoch could just buy Pegasus. Figure in debt and equity, and the acquisition would most likely still come to less than the typical \$515 it costs to pick up a satellite subscriber.

Meantime, a legal clock is ticking. The consolidated Pegasus and DirecTV suits go before a Los Angeles jury in June. "You're going to see a lot of behind-the-scenes activity with Rupert and Pagon's parties trying to reach an out-of-court settlement," says satellite analyst Jim C. Stroud. "It is going to be tricky." **F**

Flying High in Dubai

Even during wartime, a Middle Eastern airline thrived. BY KERRY A. DOLAN

WAR, TERRORISM AND SARS MAY BE sending large chunks of the airline industry into bankruptcy, but you wouldn't know it from looking at Dubai-based Emirates Airline. Emirates has canceled only two flights since the war in Iraq began. The portion of seats sold dipped in late March, from 75% to 65%, but the war hasn't hurt all that much. Shipments of humanitarian aid and resupply going into Iraq have kept the cargo business robust. Also, during the war Emirates picked up some of Kuwait Air's passengers.

Dubai, a sheikhdom in the United Arab Emirates, is driven by commerce—and that helps explain the government-owned airline's success. Fueled by Dubai's business, shopping and entertainment, passenger traffic through the Dubai airport is growing at 12% a year, versus an international average of 5%. On Mar. 29, 35,000 people, many from overseas, attended the Dubai World Cup horse race. Security is tight, and Dubai hasn't seen angry antiwar protests, as have

Cairo and Amman. "Dubai is everybody's friend. There's no security problem here," says Maurice Flanagan, Emirates' group managing director.

You can't beat the Trump-like amenities, either: things like car service to the airport for business and first-class passengers and free alcohol. Emirates was the first, it says, to offer personal TV screens, faxes and phones at individual seats. "They've taken Singapore Airlines as a benchmark for service and British Airways as a benchmark of their financial acumen," says Fraser Teasdale, head of a Miami airline-management firm.

In the last year the nonunionized Emirates flew an estimated 8.3 million passengers to 45 countries (not yet the U.S.) in its fleet of 47 planes. Revenues, growing 20%-plus a year since the airline began in 1985, hit an estimated \$2.1 billion in fiscal year 2003. Earnings were expected to be around \$168 million. Last year it was the sixth most profitable among the world's airlines. **F**



WHATEVER HAPPENS TO...



ASHLEIGH BANFIELD

The MSNBC correspondent was the "It" girl last year, reporting glamorously from Afghanistan. She landed her own prime time show. Alas, ratings plummeted and MSNBC yanked it. During the Iraq war Banfield was embedded—in places like Fort Campbell, Ky.



MUHAMMED SAEF AL-SAHAF

After rewriting the book on government credibility, the author of expansive proclamations about the war ("I triple guarantee you, there are no American soldiers in Baghdad!") disappeared. But he lives on as inspiration for a Web site selling T-shirts and aprons adorned with his saying. Site co-editor Conn Nugent says www.welothiraqiinformationminister.com has so far had 5 million hits.

—Nicole Ridgway
Brendan Co.



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She got the country club: Madeleine and Allen Paulson on his ranch in 1996.

The Paulson Estate Battle

The rich are different from you and me. They have more horses. **BY MICHAEL FREEDMAN**

IT'S PROBABLY FAIR TO SAY THAT CHILDREN OF FIRST WIVES RARELY have the best of relations with third wives, especially when it's time to divvy up a \$100 million estate. So it was with the estate of Allen Paulson, founder of Gulfstream, who died in July 2000 leaving, among other assets, 225 horses, a San Diego country club and the River Palms Casino in Laughlin, Nev.

The squabbling started soon after. Madeleine Paulson, the third wife, complained to a California superior court that Michael Paulson, 47, the youngest of Allen's three sons and a trustee, wasn't honoring terms of the estate. He refused, for instance, to sell the horses promptly. He turned down multimillion-dollar offers for StarTac, she claimed, because he wanted to see the horse win the Kentucky Derby under his father's colors.

Then there were the small things he did just to upset her, she said, like allowing her health insurance to lapse and revoking her membership to the exclusive Del Mar Country Club near San Diego, which her late husband owned through a trust. He even, she complained, took away her parking spot near the clubhouse.

Michael denies these claims—but made some nasty allegations of his own. He said Madeleine hid art and furniture in an illegally erected 8,000-square-foot warehouse at her home overlooking the seventh green at the Del Mar Country Club. He claimed she bought jewelry and put a deposit on a Rolls-Royce as her husband lay dying.

Reason finally prevailed and a settlement was reached in late March. Michael kept a slew of horses, including Azeri, the 2002 Eclipse Horse of the Year, and Madeleine received assets including the prestigious Del Mar Country Club. Madeleine has this to say about the fight: "I wish I hadn't wasted 32 months. That's such valuable time taken away from one's life."

F

SLIDE RULES RULE

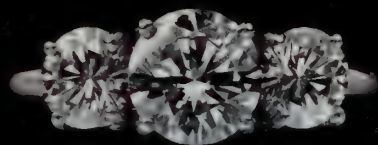
Jobs are so scarce on Wall Street these days—U.S. securities firms have shed 80,000 in the last three years—that even folks with fancy M.B.A.s are pounding the sidewalk. Which makes it all the more delicious for math whizzes like Karim Beguir. Scorning an M.B.A., Beguir, 26, got a master's degree in the obscure art of financial mathematics. J.P. Morgan Chase grabbed him less than a month after graduation in December and is now paying him nearly \$100,000 to create complex mathematical models to hedge the risk of its derivatives portfolio. "I'm at the heart of the bank's business," he boasts.

Growth in the derivatives markets and proprietary trading at investment banks has put a premium on technically skilled people like Beguir, especially over M.B.A.s still stuck on management and marketing. "In this environment, if you don't have the quantitative skills, there's not much to sell yourself on," says James Finnegan, editor of the *Financial Engineering News*.

Since 2000, 58 of the 60 graduates of the 18-month program in mathematical finance at New York University's Courant Institute of Mathematical Sciences—Beguir's alma mater—were employed a few months after graduation. Only 82% of last year's 749-student class at Stanford's business school (a two-year program) found jobs—down from 99% in 2000. Columbia and the University of Chicago saw similar slides.

Higher ed is taking the hint: More than 50 financial-engineering programs have sprung up, most in the last five years, according to the International Association of Financial Engineers. In April Kent State in Ohio launched academia's first derivatives trading floor to anchor its new 12-month, \$30,000 master's program. Goldman Sachs and Morgan Stanley, among others, are helping to shape the curriculum. Tip to laid-off bankers: Crack a math book. —Brett Nelson





FOR ONCE
IT WON'T BE THE
KIDS
THAT ARE
SCREAMING



A DIAMOND IS FOREVER

DUKE OF ERRORS

Here's a new twist on earnings releases that goes beyond cooking up figures: Just issue flat-out incorrect financial results, then hope investors don't notice when you later file corrected earnings with the Securities & Exchange Commission.

Duke Energy, the Charlotte, N.C. energy company, put out a press release on earnings in January. Compare the numbers in it with those in its annual report, issued in mid-March, and you'll find at least 15 corrections (*see table*). "The number of differences surprises me—it sounds like Duke has galloping financial statements that won't stand still," says Walter Schuetze, former chief accountant for the SEC's enforcement division.

Duke Energy spokesman Terry H. Francisco points out that the bottom line didn't change. But some of the entries made the company look better. Operating income, for example, was higher in the earnings release, while operating expenses were lower. Francisco blames complicated accounting rules and says there was no intent to deceive investors. Still, "it's not the investor's responsibility to go on an Easter egg hunt to determine what is right about a company's earnings," says money manager Fredric E. Russell.

—Elizabeth MacDonald



Get Out the Eraser

Between the time it issued its year-end earnings announcement in January and its annual report in March, Duke Energy made at least 15 revisions to its financial results. No surprise that many of the originally reported numbers made Duke's performance look stronger.

Line item	Earnings release (\$mil)	Annual report (\$mil)
Total operating expenses	\$12,449	\$13,212
Operating income	2,737	2,500
Goodwill, net of amortization	3,651	3,747
Other investment assets	1,737	1,645
Total assets	61,073	60,966
Net cash from operating activities	4,656	4,530



Sex and the State

The Endangered Species Act is all about preserving species, right? So the enviros ought to be thrilled with plans to propagate these critters, right? BY JOANNE GORDON

THE 7-INCH PYGMY OWL IS A CUTE little creature, but only 18 remain in Arizona. That's a problem for developers in Tucson. Environmentalists want 1.2 million acres of land from the Mexican border to northwest Tucson designated a "critical habitat" under the Endangered Species Act, which would put a severe crimp in the development potential of the land.

Maybe Tucson's builders could take a page from the state of Colorado, which is trying to end-run the environmentalists by, among other things, breeding scarce species. In 2000 Colorado built a 760-acre

fish lab on the dusty plains of Alamosa, with manmade ponds and dozens of tanks and tubs. There it breeds 13 endangered or near-endangered aquatic species, such as the southern redbelly dace, the suckermouth minnow and the boreal toad. Last year the lab, which has cost the state \$6 million so far, restocked lakes and rivers with 33,000 fish and 3,200 toads. At least nine other states breed endangered species or ones nearing that status, from sockeye salmon in Idaho to toads in Wyoming.

"Some environmentalists have no real desire to recover species," says Colorado

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A boreal toad and a redbelly dace.



By law, animals can't lose their endangered status unless they can survive on their own.

Governor Bill F. Owens. "They really want to stop development, and the act happens to be the mechanism to do that. We are calling that bluff."

Will the end-run work? Not on its own. By law, animals can't lose their endangered status unless they can survive on their own in the wild. A million housed in a lab don't count. Case in point: In Albuquerque, N.M. a battle rages over rights to a 400,000-acre reservoir, pitting protectors of the endangered silvery minnow against the needs of a growing population in the drought-ridden state. Since 1999 a city-run lab has spawned millions of minnows and periodically dumped them into the Rio Grande. But the fish remains endangered.

Colorado isn't deterred. For now the state lab breeds only waterborne species. "Soon, we hope to start breeding the mammals," says Governor Owens.

What does the Sierra Club think of animal breeding programs? It supports them in general, but spokesman Michael Smith echoes the law: "You have to raise them so they eventually have a shot at surviving in the wild."

F

Keep Your Eye on the Ball

Fifteen major league sports teams are up for sale, including News Corp.'s Los Angeles Dodgers and the three AOL Time Warner-owned franchises in Atlanta (the Hawks, Braves and Thrashers). B. Thomas Golisano, chief executive of Paychex, is close to purchasing one of them, hockey's Buffalo Sabres. Also rumored to be on the buy-side: Emmis Communications and a group backed by billionaire George Soros.

Here's some investment advice: If a public company or a top executive of a public company buys one of these teams, dump the stock. The table shows that five of the eight companies buying teams in the last five years have, since the purchase, suffered stock price declines worse than the market's decline. We excluded NFL teams, which benefit from plum television rights and revenue-sharing. (That kept Red McCombs' Clear Channel, whose stock has outperformed the market by 10% since the January 1998 purchase of the Minnesota Vikings, out of our database.)

Okay, five out of eight is what the statisticians call nonsignificant. But here's our unscientific theory about why you shouldn't bet on a sports-crazed executive. It could be that the boss is trying to perform a civic duty by keeping the team in town. That would be a noble gesture, but shareholders are better served by managers who are fixated on the bottom line. The other possibility is simply that the boss wants better seats at the ballpark, which means he has too much time on his hands. He may be coasting.

We tried out our theory on Carl Lindner, chief executive of American Financial Group, which owns a stake in the Cincinnati Reds. He politely decreed the connection between sports and stocks to be rubbish. "I don't think there's any correlation," he says. Perhaps not. But how's this for a link—the Reds are having a season equally as bad as his finance company.

—Monte Burke

Coming Up Short

Company	Team/owner	Date acquired	PERFORMANCE	
			change ¹	rel to market ²
American Financial Group	Cincinnati Reds/Carl Lindner	Apr. '99	-53%	69
AOL Time Warner	Washington Capitals/Ted Leonsis	June '99	-78	32
AOL Time Warner	Atlanta teams ³ /AOL Time Warner	Jan. '00	-84	26
Brocade	San Jose Sharks/Gregory Reyes	May '02	-78	26
Computer Associates	New York Islanders/Sanjay Kumar	Apr. '00	-75	42
News Corp.	Los Angeles Dodgers/News Corp.	Mar. '98	5	124
Rogers Communications	Toronto Blue Jays/Rogers Comm.	Dec. '00	-23	114
Starbucks	Seattle SuperSonics/Howard Schultz	Mar. '01	12	157

¹Change in stock price from purchase through Apr. 15, 2003. ²Change in stock price since purchase of team relative to S&P 500 index; 100 means the stock tied the market. ³Hawks, Braves and Thrashers.

Sources: FT Interactive Data via FactSet Research Systems; Forbes.





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Telco TV (Take 2)

Cable television companies are offering phone service. Can the phone companies finally fight back with video? BY SCOTT WOOLLEY

SENDING TELEVISION SIGNALS DOWN PHONE LINES WAS one of the great ideas of the late 1990s—or at least that's what people thought in the late 1990s. US West rushed to offer the service in Phoenix in 1998, spending \$3,000-plus to hook up each customer. Giddy investors bid up the market value of Next Level Communications, which makes the gear needed to cram fat video signals through skinny copper wires, to \$17 billion.

Then nothing. No phone company followed US West into the market. The capital markets slammed shut. The Federal Communications Commission announced it would require phone companies to share with competitors any TV-capable networks they built, squashing what little remaining desire the Baby Bells might have had to plow billions into network upgrades. Next Level lost 99% of its market

companies are going to have to cross from communication into entertainment, just like cable guys are crossing from entertainment to communication," says Next Level Chief Executive J. Michael Norris. SBC admitted as much in its aborted bid for the satellite TV leader, DirecTV; the idea was to bundle satellite TV service with phone and Internet access over phone lines.

Manitoba Telecom Services, a \$580 million Canadian phone company, studied the looming cable threat and decided to launch a preemptive counterstrike. It is spending \$210 million to run fiber-optic cables deep into Winnipeg's neighborhoods. From there copper phone lines carry three simultaneous video feeds (from a selection of 200 channels) as well as high-speed Internet access. Big U.S. phone companies should move faster, scolds

Collision Course

More telcos are selling TV programs along with phone service, thanks to better, cheaper technology. They'd better hurry—their cable TV rivals aim to lock up the rapidly converging market first.

COST TO INSTALL TV SERVICE OVER A PHONE LINE

1998	2003
\$3,000 per home	\$800 per home

U.S. TELCOS OFFERING TV OVER PHONE LINES

1998	2002
1	45

AMERICANS GETTING PHONE SERVICE OVER CABLE LINES

1999	2002
Under 200,000	2.5 million

Sources: Federal Communications Commission; Next Level Communications; National Cable & Telecommunications Association.

value; many of its competitors vanished.

But now the pendulum is swinging back. A growing cadre of telecom types believes that the TV-over-phone-lines idea was not really so dumb after all, just premature. In February the FCC changed its rules to allow phone companies to build new video-friendly networks without being required to lease them to competitors. The cost to hook up a subscriber has fallen 75%, to under \$800, says Next Level. That company's stock is suddenly popular again. Majority owner Motorola recently won a bitter battle for total control of the company. Small phone companies around the country have shown the gear can really work. The FCC counts 45 now selling TV service.

But the biggest reason phone companies are taking a second look at video-over-phone-lines is pure fear. Cable companies playing the game the other way—adding phone calls to wires intended for TV—have stolen 2.5 million Bell customers. In Orange County, Calif. cablers have won 25% of homes. "Phone

Cheryl Barker, president of Manitoba Telecom's TV division. "We think that all the telcos should get in this business."

Sending television signals over long stretches of copper wire has long been the biggest hurdle, since high frequencies fade out on thin copper wires. But the spread of fiber-optic lines has shortened the distances that a signal has to travel via metal. At the same time newer gear is steadily increasing the range and capacity of copper, while lowering costs. And the ability to compress TV signals helps, too—smaller signals can travel farther.

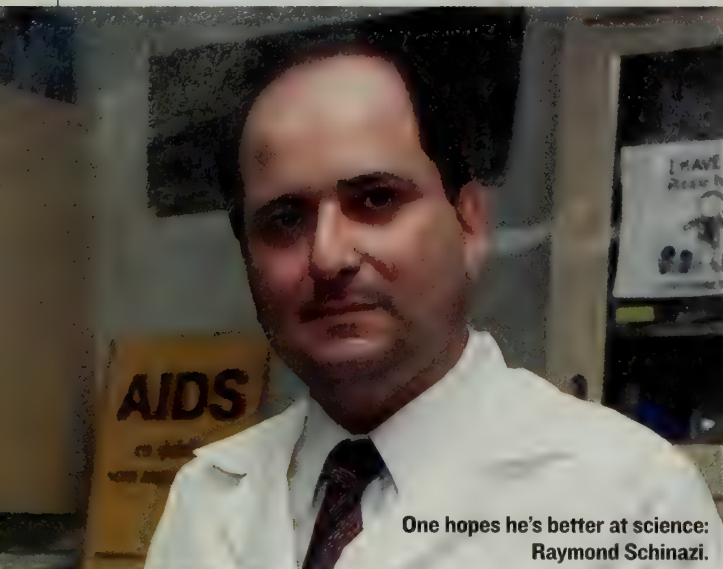
In a telecom depression, here's one sector that is lively. In April the Heart of Iowa Communications Cooperative began rolling out TV using equipment made by Myrio. SaskTel is using new Lucent gear to deliver video to 4,000 subscribers in Saskatchewan. And even though Comcast's cable TV service reaches Wyoming's Big Horn County Jail, inmates now get their TV via Next Level gear. The prisoners complain about the jail's ban of MTV, says Detention Secretary Debra Rathbun, but never about picture quality. **F**



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One hopes he's better at science:
Raymond Schinazi.

Underground Atlanta

Raymond F. Schinazi, prominent AIDS researcher and professor at Atlanta's Emory University, had "fraudulent intent" in leaving \$158,000 in patent royalties off his 1993 tax return, a judge says. The Egyptian-born scientist testified he thought the money was tax free. But in affirming \$64,000 of civil fraud penalties and interest, U.S. District Judge Orinda Evans ruled Schinazi made "deliberate misrepresentations" to auditors and, though this refund case dealt with only 1993, originally didn't pay tax on \$426,000 of such income from 1991 to 1994. No comment from Schinazi or his lawyer. —Janet Novack and William P. Barrett

Charlotte's Low Cost of Doing Business

Sheer luck, it seems, helped Bank of America avoid being part of the \$1.4 billion settlement New York State Attorney General Eliot Spitzer extracted from a dozen brokerages over conflict-of-interest allegations. Wall Streeters say Spitzer's staff mistakenly thought BoA, based in out-of-the-way Charlotte, N.C., was simply an or-

dinary bank and not—as in fact it is—ranked ninth in all securities underwriting. "An interesting question," a Spitzer aide allows. "There were ten lawyers sitting around a table, and we just tried to come up with the list of major firms doing retail." At BoA headquarters in Charlotte, mum's the word. —Phyllis Berman

\$30 Million Just Wouldn't Do It

Goldman Sachs Group shareholders approved a management-backed plan last month that allows 29 executives to get annual bonuses of up to 1% of operating income—each. As defined, operating income is calculated without deduction for taxes, depreciation and goodwill impairment. The proxy for the New York-based investment bank states that among the plan goals is "to perpetuate the sense of partnership and teamwork that exists among our senior professionals." Don't accuse these execs of unlimited greed; there's an absolute maximum payout—per year—of \$35 million apiece. —Robert Lenzner and W.P.B.

Behind Those "Always Low Prices"?

A Dallas property tax consulting firm that takes a cut from clients for challenging assessments says that Wal-Mart Stores fraudulently refused to pay despite realizing unspecified but "substantial" savings. Property Tax Control Southwest claims in a federal court lawsuit it had a contract to show Wal-Mart strategies on how to cut taxes at stores nationwide, such as making sure removed fixtures were promptly taken off the tax rolls. The consultancy alleges Wal-Mart from 1999 to 2001 said it didn't use the advice when it really did, and had no intent of paying. A Wal-Mart spokesman said the company hasn't been served with the lawsuit. —J.N. and W.P.B.

If You're Healthy and Eat Fast, a Fun Place

Apogent, a public \$1 billion (revenues) health care product research firm, evidently researches the health of its own workers. A Silicon Valley subsidiary recently sent staffers a memo saying they would need advance documentation to insure that any time off to see a doctor is "necessary." Lunch breaks that exceed 30 minutes require a supervisor's approval. —Dirk Smillie

Frankly, We Could Have Filled This Entire Page

Below, a list recounting some recent criminal convictions of individuals who styled themselves as some kind of financial adviser. —W.P.B.

ADVISER/RES.	ALLEGATIONS INCLUDE	SENTENCE
Monica Lynn Coleman/Pasadena, Md.	spinning \$2.6 million from 5 clients	15 years
Thomas Durkin/Westlake, Ohio	looting \$80 million from investors	5 years
Stevin R. Hoover/Luton, Mass.	snatching client funds to pay own bills	18 months
Robert J. Moody/Tucson, Ariz.	"space aliens" told him to kill two women	on death row
Daniel Neuenschwander/Grand Ledge, Mich.	embezzling \$2.2 million using fake forms	6 1/2 years
Mark Pepe/West Seneca, N.Y.	taking \$643,000 to bolster own lifestyle	40 months
Douglas Stolba/St. Louis Park, Minn.	stealing \$5.4 million for gambling habit	9 years
Robert Tommassello/Hazleton, Pa.	widows among victims of \$1.5 million swindle	37 months



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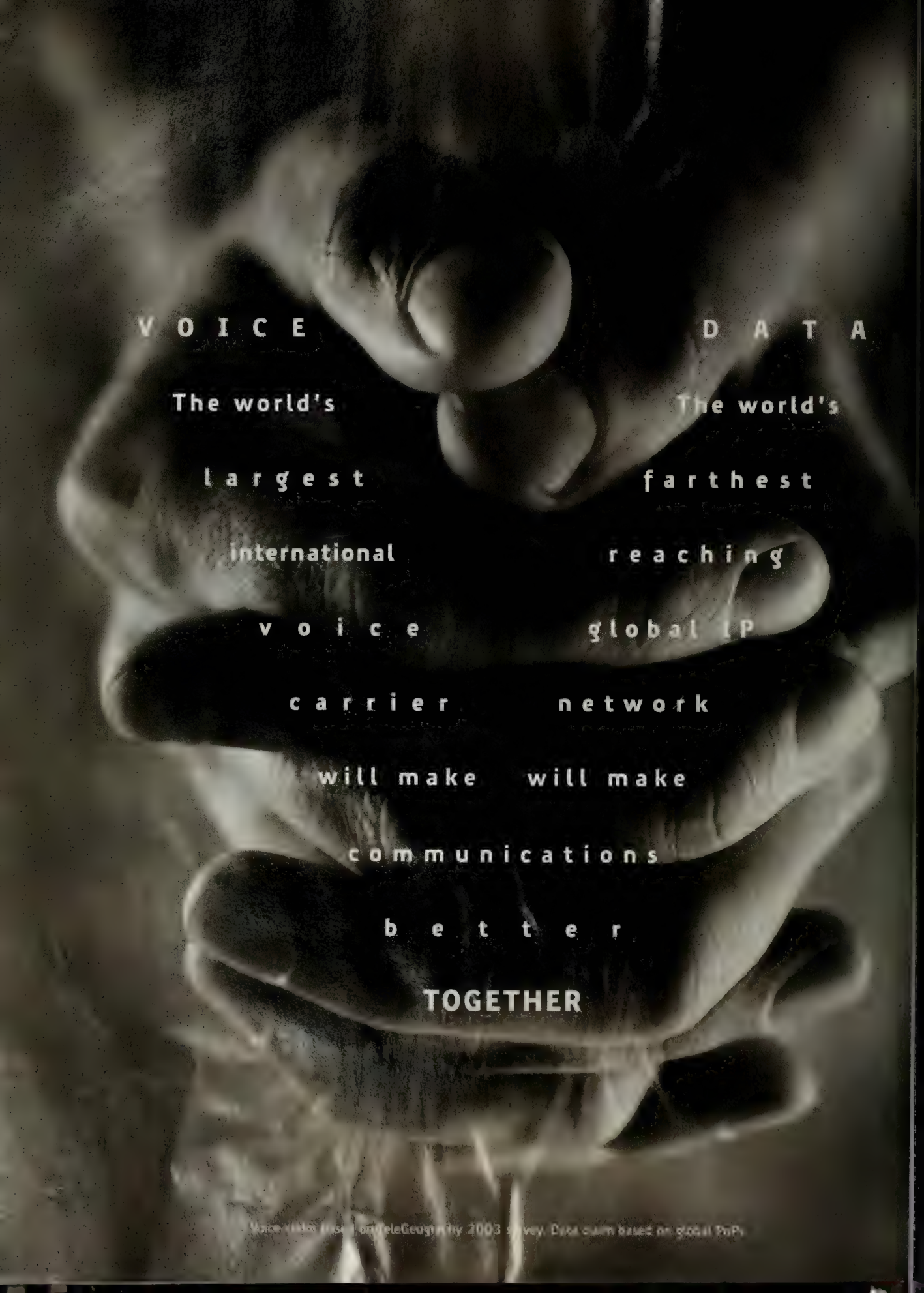
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Criminalizing Capitalism

Politicians are punishing Wall Street to avenge a stock market gone sour. Main Street and small investors will be among the unintended victims.

BY NEIL WEINBERG

A

SENIOR EXECUTIVE IN AMERICAN

finance sits in a plush private dining room high atop Manhattan, fists clenched, knuckles white. He commands thousands of workers and billions of dollars in capital yet says he is powerless to stop government's plan to do Wall Street grievous harm—or even to speak out against it.

Egged on by a public angry about crooked businessmen and declining stock prices, politicians and regulators are rushing through a gaggle of new rules aimed at legislating honesty on Wall Street. The lockdown has left many Street execs angry and demoralized, fearful that the restrictions will snarl the gears of commerce and wreck their already reeling businesses. "It's the Vietnam strategy all over again: Bomb a village to save it," the executive says. "There's an old saying that Texas politicians never mess with Big Oil, but in New York pols can't keep their hands off Wall Street."

The new rules, passed in response to the infamous misdeeds of a few—Enron, Arthur Andersen, WorldCom, Global Crossing, Tyco—will make life tougher for all 15,000 publicly held firms in the U.S. Wall Street will get hit especially hard. A pending settlement takes aim at claims that its firms used their sell-side analysts to tout the stocks they took public. It will force them to pay \$450 million for "independent" research that clients haven't requested. As that investigation proceeded over the past year, Wall Street firms have yanked coverage of 283 companies, a 7% reduction, Reuters says. They also are cutting phone and e-mail links between analysts and bankers at the same company, and will hire minders to monitor communications.

Even before the new regulations took hold, Wall Street was sick. Securities firms have cut 80,000 jobs in two years, a 10% reduction. Wall Street will likely slash 8,000 more people by year-end. Since the research investigation got under way a year ago, the ten Wall Street titans that agreed to a settlement last December have lost a combined \$138 billion in market value. They are on the hook for \$1.4 billion in fines—most of the money des-

ILLUSTRATIONS BY MATT MAHURIN

tined for regulators and none for investors. A raft of investor lawsuits will drive the costs up even higher. Citigroup, whose market value has fallen \$45 billion despite strong financial results, has taken a \$1.3 billion charge against earnings to cover lawsuits at its Salomon Smith Barney unit. J.P. Morgan Chase has reserved \$900 million.

The Sarbanes-Oxley Act, the sweeping assault that Congress hurriedly passed last July, will force public companies to wade through 60 pages of new laws and hundreds of pages of regulatory interpretations. Many will have to underwrite more expensive audits and revamp financial controls, even if they believe the costs far outweigh any benefit. Their foreign operations must comply with the same standards, even if doing so conflicts with local laws. Another provision requires companies to give even the lowliest janitor on the other side of the globe a way to blow the whistle on financial wrongdoing, anytime day or night.

"It's the criminalization of risk-taking, which is the same as criminalizing capitalism," says Robert Elliott, former partner of KPMG and head of the American Institute of Certified Public Accountants. "Executives now face millions of dollars in fines and 25 years in prison for things as common as estimation errors and writedowns."

The costs of this crackdown could be staggering: as much as \$15 billion this year and \$13 billion a year thereafter by one well-grounded estimate from financial consultant Johnsson Group. You could say that Wall Street brought this virulent political overreaction on itself. A record 330 public companies restated their financials last year. At Credit Suisse First Boston, the Chinese wall separating investment bankers from analysts was straddled by a single boss, Frank Quattrone. At Salomon Smith Barney, the heads of companies that hired the firm got first dibs on hot initial offerings of Internet stocks.

Yet this kind of favoritism wasn't illegal; much of Wall Street's behavior was no more egregious than that of the rest of us who conspired to inflate the bubble—day traders who handled their retirement accounts as if they were in a casino; mutual fund firms that herded investors into 71 new tech funds as the market peaked in early 2000; journalists who blithely believed

earnings didn't matter. "No question, we produced embarrassingly bad research," admits a managing director at a Wall Street firm. "But you don't get sent to Rikers Island for poor research."

The regulatory onslaught already is wreaking unintended consequences on the U.S. economy. Dozens of public firms are going private. Foreign companies are shunning U.S. markets and raising cash in London, instead. Executives, fearful of the mounting threat of litigation and crimi-



"Only the crazy courageous would stand against this" political frenzy.

nal prosecution, are passing up the sort of promising ventures they were hired to pursue.

Before enacting the law, says Thomas McCool, head of financial research at the General Accounting Office, Congress did not calculate what it would cost to comply. One cost: higher audit fees. They will rise from 20% to as much as 100%, says Financial Executives International. The new law and the threat of litigation it brings probably have something to do with the out-of-control cost of directors' and officers' liability insurance. Premiums are up 30% for new policies, while underwriters have eliminated multiyear contracts to make way for future hikes.

RadioShack, the retailer, has never restated its financials or suffered a big scan-

dal. Yet it expects to begin paying more for audits, legal advice, insurance and the greater time commitment required of directors. Just how much is unknown, in part because the SEC hasn't finished issuing rules for such basics as what it will regard as sufficient internal financial controls. "Given that the SEC is still issuing regulations related to the act, people are looking around and wondering what the long-term impact will be," says David Goldberg, who runs RadioShack's legal department.

In arriving at its cost estimate of up to \$15 billion, Johnsson Group focused on companies with \$1 billion or more in sales (some 1,460 firms). For some smaller public firms the added burden is too much to handle. Madison Bancshares Group, a \$200 million (assets) Pennsylvania bank, figured the act could increase its annual compliance 40% to \$400,000, one-third of its pretax earnings last year—a big reason it delisted. "The country jumped into this a lot quicker than it should have," says Chief Financial Officer Cheryl Hinkle Richards. "It's like putting up a red light after a car wreck."

Quick to gripe behind closed doors, executives of companies that are still public have maintained official silence as a matter of survival. "Only the crazy courageous would stand up against all this," says Bruce Hiler, a securities lawyer at O'Melveny & Myers and a former SEC enforcement official.

No wonder. As The Street's Big Ten firms negotiated with their first and most formidable antagonist, the headline-grabbing attorney general of New York State, Eliot Spitzer, they faced the constant threat of criminal indictment if they didn't settle. That is tantamount to a death sentence for a corporation that lives on its integrity—it was, at any rate, for Arthur Andersen. Ultimately the big brokers agreed to pay \$1.4 billion in fines for misdeeds that haven't even been cataloged as yet and to embrace a research plan they detest. "We've paid fines but haven't been told what we did wrong," says a Wall Street research chief who resents Spitzer's settle-or-die threat. "Legal or not, it's a mighty hammer."

After Spitzer grabbed the spotlight with his investigation, a spate of rival investigators vied for a piece of the action, including the SEC, the New York Stock Exchange, the



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If They Were in Charge ...

Get large investors more involved in appointing directors and get boards to use more outside advisers. Increase the tax on short-term capital gains and eliminate stock options to limit short-termism. Encourage higher dividends via tax policy. Publish company financials using both aggressive and conservative assumptions about items like pension liabilities and depreciation schedules.

—John C. Bogle, founder of Vanguard Group

Embarrassment and humiliation in the markets have provided the best fix, though Sarbanes-Oxley gave some new direction and [regulatory] funding. Unsolved are problems in corporate and mutual fund governance and soft-dollar arrangements that strongly influence fund managers' dealings with brokers.

—Arthur Levitt, former SEC chairman

Reinstate the legal liability that was repealed in the 1990s for securities firms, accountants, lawyers and others who aid and abet corporate fraud.

—Melvyn Weiss, partner, Milberg Weiss Bershad Hynes & Lerach

Weaken antitakeover statutes to discipline management. Raise the \$1 million cap on the tax deductibility of nonperformance-based compensation to reduce stock-options use. Eliminate tax laws favoring debt; lower the tax rate on dividends to the level of long-term capital gains.

—William Niskanen, Chairman, Cato Institute

Simplify the tax code so executives and directors can better understand their companies' financials.

—Charles James, general counsel, ChevronTexaco

Replace the overly complex research settlement with a simple ban on collusion between analysts and investment bankers. Hit those who don't comply with huge fines, and they will get in line.

—Wall Street research director

National Association of Securities Dealers and the North American Securities Administrators Association, plus attorneys general and regulators in Alabama, Massachusetts, Indiana and elsewhere.

J.P. Morgan Chase was grilled on national television last year in the Senate's Enron hearings, which failed to uncover a smoking gun at the bank or force it to restate a single transaction. Yet the SEC informed the firm last month it has opened a formal investigation, while the Department of Justice, Federal Reserve and New York State Banking Department are looking into the same issues. The bank meanwhile, agreed to pay \$80 million to settle Spitzer's charges that it duped small investors with its research. Never mind that J.P. Morgan Chase's brokerage business was institutional and never put out retail re-

search for the alleged victims.

Still more investigations are under way. One scrutinizes investment banks' doling out of initial-offering shares to executives of corporate clients. Known as spinning, the practice smells bad but isn't illegal. So when the NASD went after CSFB's Quattrone for spinning in March, it did so under the catch-all rubric that he failed to uphold "fair and equitable principles of trade." Separately, the SEC is looking at the tying of loans to investment banking business, a practice that is legal for traditional investment banks and the decades-old way bankers price new securities and line up buyers.

"There's a popular belief that with the global [research] settlement we'll all move on," says one managing director. "The reality is any of these investigations could result in regulators jumping in around the

world, consuming time and money and creating more bad publicity."

And lawsuits. Plaintiff attorneys filed 1,463 cases for NASD arbitration in January and February, up 23% in a year. James Hooper, an Orlando, Fla. lawyer who previously sued breast implant and diet drug makers, has spent over \$1 million on TV ads seeking angry Wall Street clients. Hooper says he already has vetted hundreds of millions of dollars in claims and expects far more once Spitzer releases his evidence against Wall Street. J.P. Morgan Chase is being sued by the Connecticut Resources Recovery Authority for helping finance Enron and thus allegedly creating a "false sense of security." Never mind that Enron's collapse has cost the bank \$927 million.

The Spitzer settlement's influence on The Street has been chilling. A research manager at a large firm recounts how an analyst burst into the office recently, frantic that an investment banker had implicated him in a terrible crime: The banker had e-mailed the analyst a thank-you for a research note. The crime, it seems, was in communicating at all. Analysts and bankers soon must communicate only through go-betweens.

The settlement also has required Wall Street firms to devote thousands of hours to track buy, sell and hold ratings for every analyst and create paper trails of signed documents to demonstrate every report contains untainted opinions. Analysts and investment bankers will soon be banned from joining corporate clients on visits to sell stock to large investors. Nor can they hold conferences in private or discuss firms and industries. "It's overkill," says one research manager. "Our people can't brainstorm about the next tech wave or cancer cure, so they'll just signal each other through chaperones. Nothing will change but the cost of operating, and that we'll pass on to you-know-who."

The Spitzer pact forces Wall Street to spend almost half a billion dollars over five years for research deemed independent by yet more overseers. Never mind that "independent" houses (those that weren't also handling investment banking for the companies they follow) were as prone to issuing buy ratings in the 1997-to-2000 run-up as were analysts at lead investment banks, says Purdue professor John McConnell.

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With big bucks up for grabs, a new style of indie researcher has emerged. World Financial News Network is a Seattle outfit that recently claimed to have 5.4 million online readers and stock recommendations up 84%. When the firm completed a new report putting a buy on Goldman Sachs Group, its chief executive, Joseph de Beauchamp, sent an advance copy to Goldman, asking for suggestions on "how to best improve" it and soliciting \$5,000 to direct readers to Goldman's own site. Brushed off by Goldman, de Beauchamp asked Spitzer's office to declare his firm eligible to conduct some of the "independent" analysis The Street must soon begin underwriting.

With Wall Street research drying up, scores of companies must now fend for themselves. Deltic Timber, an El Dorado, Ark. owner of timberland, lost all five sell-side analysts who had followed the company. "We'll just have to spend more on road shows and direct contacts," says investor relations chief Kenneth Mann.

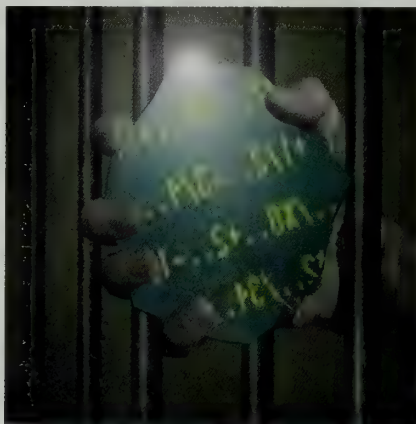
Other companies are going even further to draw coverage, paying "independent" analysts to follow their stocks, with no rules governing what, if anything, is disclosed about the arrangement. Electronics maker Orbit International and animal health insurer Hartville Group both pay for analyst coverage. "It's definitely a problem, but when brokerages are banned from using research for marketing, there isn't much incentive for them to cover smaller firms," says Louis Thompson, chief executive of the National Investor Relations Institute.

In Washington last summer Congressman Michael Oxley of Ohio joked that "summary executions" of Wall Street execs "would get about 85 votes in the Senate." And so the conservative Republican, an emphatic opponent of earlier efforts to rein in Wall Street, reversed course and put his name on a get-tough act, which breezed through the upper house 97-0.

The bill had been languishing in the Senate early last year. Then WorldCom blew up. In 72 hours, just before adjourning in August, the House and Senate forged a final version. The resulting Sarbanes-Oxley Act of 2002 was so arcane that the day after it passed the general counsel of the Securities & Exchange Commission presented Oxley with 20 pages of questions,

asking what lawmakers were trying to do.

Oxley was an unlikely critic of Wall Street. A few years ago, when then-SEC chairman Arthur Levitt tried, unsuccessfully, to impose a new rule forbidding big accounting firms to sell consulting services to the clients they audit, Oxley termed the move "draconian." His new law mostly bans such consulting. Oxley had backed protections for execs from shareholder suits; his new act threatens them with 25 years in jail for misreporting.



"Now we can't brainstorm about the next tech wave or cancer cure."

The whistle-blower requirement will cost a fortune. Diebold, a 144-year-old Ohio maker of bank safes, will spend thousands of dollars translating the guidelines into 13 languages. When workers ring a toll-free hot line, Diebold will have to decide whether to follow up or face a gaping legal liability. About 2% of workers will call in, triggering a \$2,000 bill each time a company investigates, says Carl Liggio, general counsel of Ethicspoint, a Vancouver, Wash. hot line operator.

"Companies have shied away from universal hot lines because they're a vehicle for anyone who wants to screw them," he says. "The costs are significant."

Charles Whitchurch, chief financial officer of Zebra Technologies, a \$475 million (2002 sales) maker of bar-code printers, says the act has forced the Vernon Hills, Ill. firm

to put a "formal wrapper" on practices already in place, at a higher price.

Zebra has spent \$200,000 on questionnaires to create the necessary paper trail for its internal controls, which formerly were handled by conference calls. It has added an extra independent director, and the duration of its audit committee meetings has tripled. The premium for its \$45 million insurance policy for officers and directors has tripled to \$1 million in a year. Zebra's auditors are raising their fees, too. Whitchurch cringes at the potential legal repercussions of signing the two-page, single-spaced ethics statement that Zebra's lawyers have drawn up. "I want high ethical standards, but this thing goes into such excruciating detail it gives people who want to play the blame game a loaded gun, and some will use it."

One fact that may have escaped Congress' attention in the heat of passing Sarbanes-Oxley is that New York does not have a monopoly on raising capital. It competes with London and Tokyo, and the act makes that tougher. It requires audit committees of independent directors to exercise broad oversight, but in Germany firms don't even have audit committees. "The crucial factor in Porsche's decision [to forgo an American listing] was ultimately the law passed by the U.S. government this summer," Porsche said last fall.

Ping An Insurance Co., which controls 20% of China's insurance market, and Soho China, a home builder, recently decided against U.S. listings in part because of Sarbanes-Oxley, investment bankers say. "They're jumping up and down with joy in London, Hong Kong and Tokyo over listings that would have gone to the U.S.," says the head of capital markets for a Wall Street firm.

Can New York City afford to lose any more jobs? Its unemployment rate is 9.1% and rising. The city's deficit for the current fiscal year is likely to top \$3.4 billion. Already the mayor is planning to shut firehouses and lay off teachers' aides.

Many U.S. and foreign companies are now raising U.S. capital through private placements that skirt Sarbanes-Oxley's onerous rules. Many others will go private. All of which means less capital for growing companies and fewer choices for investors—unintended consequences of a bill passed in haste to appease an angry mob. **F**



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Shortchanged

The Baby Bells may have bilked consumers out of billions by inflating the cost of their networks. Regulators seem content to overlook the matter.

BY SCOTT WOOLLEY

FRONT-PAGE HEADLINES in June 2000 hailed a historic deal that dramatically cut phone rates for the nation's consumers. The Federal Communications Commission, in persuading the Baby Bells to slash the access fees they charge long-distance carriers for routing calls to their local lines, said it would save customers \$3.2 billion a year. The FCC's claim to have enacted "the largest rate cut in the history of federal telephone regulation" was the *New York Times*' lead story.

The true saving, it turns out, fell far short of that. While the Bells agreed to chop their access fees, they also won the right to offset that reduction by boosting flat monthly fees charged to local customers. These offsetting fee increases now approach \$5 billion a year and, even in a world of telecom deflation, have sent local

phone bills climbing. Today customers of Verizon, the biggest of the four surviving Bell companies, see the \$72 annual fee—up \$30 a year per line so far—listed as the "FCC line charge" on their phone bills, though the Bell gets the cash.

The little-noticed shift in fees was part of an extraordinary agreement the FCC negotiated with the Bells and a few long-distance titans in a series of secret meetings ending in early 2000. One FCC person present likens the talks to "Al Capone and Bugs Moran in there, cutting up Chicago. Consumers were not at the table." The resulting deal was officially named Calls, for the Coalition for Affordable Local and Long Distance Service, no irony intended. But it also was a way for the Bells to bury what could have become a multibillion-dollar accounting scandal.

Funny numbers have always defined the phone business—arbitrary rate caps imposed by regulators; 40-year depreciation for gear that nowadays loses its value

in only a few years; access fees that charge more for carrying calls across town than it costs to carry them across the country. And in the Calls agreement, the Bells managed to paper over some funny numbers indeed: some \$10 billion in equipment that FCC auditors found to be missing, nonexistent or untraceable. The total could end up being several times that. The massive discrepancy—which Bell officials vehemently deny—turned up in an FCC audit in the months leading up to the Calls settlement three years ago. Most regulators attribute the overstatement to sloppy recordkeeping rather than to a Bell conspiracy to intentionally mislead.

Either way, though, the result would be the same: Bells reaping billions of dollars more in revenue over the years than they otherwise would have been allowed to collect. That is because local rates and access fees were all originally justified by carriers' cost bases. Assets carried at erroneously (or intentionally) inflated costs



on the books naturally lead to higher regulated prices.

Now some factions are pushing regulators to take a harder look inside this can of worms. In February a small watchdog group, TeleTruth, petitioned the Securities & Exchange Commission to launch an investigation. A coalition of 42 consumer groups, irked by a California state audit that accuses SBC of overcharging customers by \$350 million, has filed a plea with the FCC. It demands: "When will the Commission systematically determine if violations of accounting requirements ... have resulted in interstate overcharges, not only in California, but in all states in which SBC conducts its operations?" It calls the missing \$5 billion in gear "the tip of the iceberg."

But the FCC seems unlikely to deal with this would-be accounting mess. The reason: As part of the Calls settlement, FCC staffers and long-distance executives say, the FCC killed the equipment audit entirely. The Bells counter that the audit was flawed from the start, based on bad statistics and hasty conclusions. "It's a farce," says a Verizon spokesman. "A sham," says SBC. "There's no 'there' there," adds BellSouth.

Will the FCC reopen the mystery of the missing equipment? An FCC spokesman says "the order to terminate the audit proceedings remains the Commission's last word on the subject." He adds that the Calls deal had "significant benefits" for consumers, and that moving toward flat monthly fees has spurred the creation of "all-you-can-eat" calling plans.

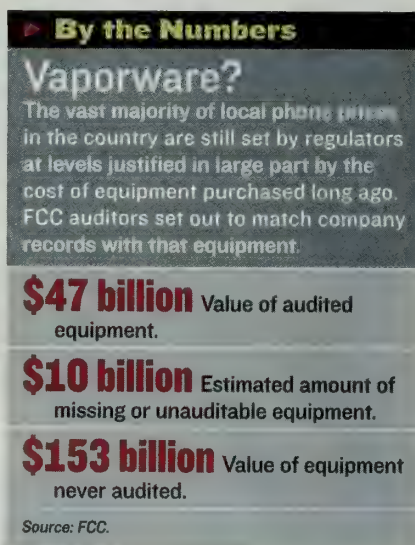
The secret meetings played out in Washington in early 2000. At the FCC, Lawrence Strickling, the chief phone regulator at the time, hosted the clandestine discussions with people from AT&T and WorldCom on the long-distance side, and Verizon, SBC and BellSouth on the local side.

Long-distance carriers were paying the locals upwards of \$15 billion in access fees each year, a remnant of the 1984 breakup of the old AT&T empire. The summit's purpose was to renegotiate how those billions flowed, but AT&T and WorldCom had an advantage at the table:

They could use the devastating findings of the FCC audit as a cudgel.

For the first time, the FCC auditors had traveled the country and spot-checked telephone buildings to verify the existence of equipment carried on the books. They discovered \$5 billion in assets was missing outright. At least another \$5 billion was impossible to audit, although federal law explicitly requires otherwise. Moreover, they looked at only 25% of the Bells' gear, the stuff at central switching offices; billions more in questionable accounting might lie in the rest of the network.

The implications were staggering. FCC



auditors were intent on levying large fines and seeking billions in refunds. "When the audit team started getting huge numbers, the Commission started getting very, very nervous," says one senior person at the FCC. "The dollars were so huge that there was no way the FCC would pursue them," says a long-distance executive.

And so, even as the auditors continued digging, the Calls parties struck a backroom bargain that reshaped the regulation of the \$120 billion industry to their mutual benefit—and simultaneously killed the audit and buried the existing evidence. In November 2000 the FCC voted to halt the audit work; 16 months later it dismantled the audit department altogether.

Copies of audit documents show records in chaos, some of them bafflingly sloppy. Beyond missing equipment, the

books are littered with such entries as "unallocated other cost" and "undetailed investment." Unverifiable items amount to a huge black hole, totaling some \$5 billion in untraceable gear. The Bells say such equipment—whatever it is—was in fact purchased, still exists and was rightly built into the regulatory rate base.

When the auditors could find equipment, it often was carried at wildly varying—or simply puzzling—prices. One type of unit used to link phone lines to a switch is carried at \$4; exactly the same piece of equipment, bought in the same year, is elsewhere recorded at \$133,543. Dozens of other records list items with a quantity of zero and a collective value of millions, including zero batteries worth \$47,290 and zero printers worth \$23,570. Even when the quantity was listed as one, there are head-scratchers: GTE (now part of Verizon) carried gloves on the books at a value of \$458.

At the time, the Bells succeeded in keeping these details private. AT&T and WorldCom executives, who signed nondisclosure agreements, got a look at the specifics; after the Calls deal came out, the audits faded away. Months later a wave of accounting scandals swept American business, hitting telecom companies particularly hard.

For now the Calls deal continues to determine prices paid for the roughly 85% of phone lines that remain subject to price-cap regulation. (Much of the rest is resold to the long-distance companies under a contorted regulatory policy that has sparked still more fighting between long-distance and local-service rivals.)

Calls has been a lifesaver for the Bells. Access fees, following years of steady declines dating back to the breakup of AT&T, are now frozen. Average local phone bills are up, after years of being flat or declining. In the 1990s the big three Bells' interstate revenue earned them an average return of 14%, according to FCC data. Then came Calls and the purported sacrifices it required of the Bells. Yet in the two years since, their average rate of return has risen to 18%. Says one FCC staff member: "These guys are earning like monopolists, and that's an indictment of the Calls plan."

Professor Rothman Strikes Again

His put-down of "diversity" was the latest zinger in an academic career that has been all bad news for political correctniks.

BY DAN SELIGMAN

MY HEART LEAPED THE OTHER DAY when I noticed that Stanley Rothman had poked his nose, or at least his data, into the national debate on reverse discrimination. There's no telling how the Supreme Court will resolve the case before it—featuring the University of Michigan's efforts to increase racial diversity by awarding admission points and other "plus factors" to minority applicants—but it is hard to see the Supremes simply ignoring the extraordinary findings that Stan and his collaborators, Seymour M. Lipset and Neil Nevitte, have laid on the table.

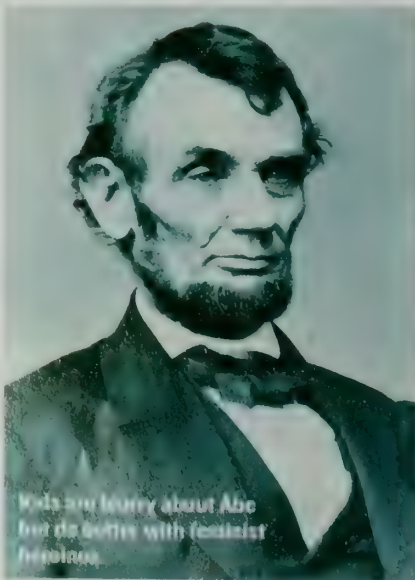
Rothman, emeritus professor of government at Smith College, is also director of its Center for the Study of Social and Political Change, and the diversity study is not the first occasion on which he has barged into a long-standing controversy with his own compelling data. Over the years I have assembled a favorite-facts collection from the high-flying arguments he and his collaborators—there are usually one or two—have launched about media bias, environmentalism, feminism, IQ and other battlegrounds in the culture wars. An interesting coincidence regarding these facts is that every one of them confirms a fellow's darkest suspicions about the politically correct enemy. Also, a lot of them are funny.

Compelling, but not funny: In murder trials white defendants are more likely than black defendants to receive the death sentence—from a 1994 *Public Interest* article, written with Stephen Powers. The article noted that the opposite had been true in the years before the 1950s.

Risible, if less compelling: American high school students are more likely to correctly identify the Seneca Falls declara-

tion than to know when Abraham Lincoln was President. (For readers who, like me, never heard of Seneca Falls: The declaration is an 1848 statement of women's rights, written by feminist heroine Elizabeth Cady Stanton.) Stanton's triumph over Lincoln is noted in a 1995 study of high school texts by Rothman, Robert Lerner and Althea Nagai.

Rothman has returned several times to media bias (with "media" including Hollywood and television), and the risibility quotient is unusually high in this area. In ranking national leaders, Columbia's journalism school students gave Fidel Castro far higher marks than Ronald Reagan, as reported in *The Media Elite* (1986), written with S. Robert Lichter and Linda S. Lichter. Neither, to be sure, was rated as high as Ralph Nader. Also memorable was a finding in *Watching America: What Television Tells Us About Our Lives* (1991)—



that "TV businessmen constitute the largest group of murderers aside from professional gangsters."

A primary tool for Rothman is the opinion survey. If the survey is of opinion leaders, it can turn up bias. For example, if the experts who run the media persist in saying things that other experts judge false, it is reasonable to assume they are putting their biases ahead of their reporting. In *The IQ Controversy: The Media and Public Policy* (1988), Rothman and Mark Snyderman collected data showing that the press overwhelmingly attributed IQ differences in the population to various cultural artifacts. The authors also surveyed 661 experts—academic psychologists, cognitive scientists, test specialists—who decisively rejected these cultural explanations and collectively stated that some 60% of IQ variance reflected the different genes of the high and low scorers.

Here are two favorite facts from *Environmental Cancer: A Political Disease* (1999), written with S. Robert Lichter. (1) In the collective judgment of members of the American Association for Cancer Research the least reliable reporting about the sources of environmental cancer was done by the Tobacco Institute, environmental organizations, TV networks and the *New York Times*. (2) The scary 1989 statement on *60 Minutes*, based on input from the Natural Resources Defense Council, that Alar was "the most potent cancer-causing agent in our food supply," followed by a government estimate that the chemical in question represented a lifetime cancer risk of 3.5 cases per trillion people exposed.

The Rothman et al. take on diversity is based on a survey of 4,000 college students, faculty and administrators and appears to be the only empirical study holding diversity to be a negative, not a positive, in the higher-education experience. It is now plainly harder for supporters of the Michigan system to argue that diversity is such an important goal that even racial preferences are justified in order to attain it.

And, in a finding that nobody on either side of the argument was prepared for, increased diversity is also associated with increased feelings among students that they have suffered discrimination on campus. Not funny—but definitely getting added to the favorite-fact collection. **F**

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THE U.S. ARMAMENTS INDUSTRY TODAY LOOKS MORE the way it did when Dwight Eisenhower entered West Point in 1911 than it did 50 years later, when, in a farewell speech, he famously warned Americans to beware the "military-industrial complex."

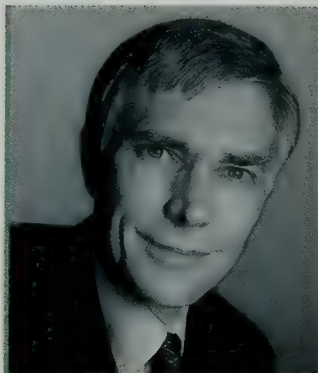
Until World War II, Eisenhower reflected, the U.S. had no real weapons industry—"American makers of plowshares could, with time and as required, make swords as well." By 1961, however, the U.S. had formed "a permanent armaments industry of vast proportions," overseen by a huge work force "directly engaged in the defense establishment." This development implicated "our toil, resources and livelihood." At stake was "the very structure of our society."

Both halves of Eisenhower's dark vision are now rapidly fading into history. It takes far fewer people to fight and direct wars today than it did even a decade ago. That's because the speed and power of the front-line soldier have been so greatly amplified by smart weapons and smart delivery systems, and because accurate information now moves so easily up the chain of command. Our distant wars are now fought, once again, by the few, the band of brothers, while most of the rest of us lie abed, watching their progress on CNN.

The center of gravity of defense manufacturing has shifted decisively back into the civilian sector, as well. Large contractors still assemble the guidance system and explosive in a smart bomb, and the complex mix of steel and silicon that makes up a Nimitz-class aircraft carrier. But the components that account for much of the cost and all of the astounding precision and agility of the new weapons—powerful chips, together with the countless layers of software that make them function—are manufactured by the same companies that build microprocessors for PCs and amplifiers for cell phones. It is the huge civilian demand for PCs, digital assistants, cell phones, high-tech cars and smart appliances that has made these components as cheap and disposable as bullets.

This isn't to say that the technology moves only in one direction. Integrated circuits emerged from aerospace programs in the 1960s; gallium arsenide semiconductor ampli-

It is civilian demand for PCs, cell phones, high-tech cars and smart appliances that has made precision bomb components as cheap and disposable as bullets.

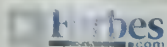


fiers that make possible the compact, cheap cell phone were pioneered by TRW for defense purposes a decade ago. The indium phosphide, gallium nitride and silicon carbide power chips that will land in consumer electronics a decade hence are being developed today in R&D programs funded by the military.

As a part-time partner in a small venture capital firm, I have visited dozens of innovative startups that have developed new semiconductors, lasers, sensors and power-control systems under Department of Defense auspices and are now ready to begin moving their products into civilian markets. These technologies invariably started out too difficult, esoteric and expensive to be of interest to anyone but the military. The military couldn't afford them, either, but for the fact that successful information and power technologies invariably make the transition into the civilian sector, where mass production leads down the cost curve. For volume production the military and its main contractors are now firmly committed to buying parts off the commercial shelf whenever they can. Smart weapons are mostly built from civilian components, suitably packaged and hardened for the battlefield.

Thus the military-industrial complex now consists of two relatively thin bookends to our enormous, civilian, high-tech economy. Military R&D programs push the leading-edge development of power semiconductors, software and sensors, a decade or so out ahead of Intel, Motorola or DaimlerChrysler, then encourage the migration of successful technologies out into the civilian sector as quickly as possible. Military contractors end up buying back the same technology at mass-production prices, embedding it in every vehicle, weapon and projectile on the battlefield.

"Only an alert and knowledgeable citizenry," Eisenhower warned in 1961, "can compel the proper meshing of the huge industrial and military machinery of defense with our peaceful methods and goals, so that security and liberty may prosper together." That was perhaps true in 1961. Today, however, it is our liberty, our routine, peaceful purchases and pursuits that support the huge industrial base on which the arms manufacturers completely depend. Unconsciously, and without ever setting out to do so, our civilian sector gave our soldiers the tools they needed to bring this war to its mercifully quick conclusion.



Peter Huber, a Manhattan Institute senior fellow, is the author of *Hard Green: Saving the Environment From the Environmentalists* and the *Digital Power Report*. Visit his home page at www.forbes.com/huber.

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Templeton Growth Fund | Morningstar Ratings™ 3/31/03[†]

OVERALL
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[†]Source: Morningstar 3/31/03. Past performance does not guarantee future results. For each fund with at least a three-year history, Morningstar calculates a Morningstar Rating™ based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a fund's monthly performance (including the effects of sales charges, loads and redemption fees), placing more emphasis on downward variations and rewarding consistent performance. The top 10% of funds in each category receive 5 stars, the next 22.5% receive 4 stars; the next 35% receive 3 stars, the next 22.5% receive 2 stars and the bottom 10% receive 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) The Overall Morningstar Rating for a fund is derived from a weighted-average of the performance figures associated with its three-, five- and ten-year (if applicable) Morningstar Rating metrics. Morningstar Rating is for Class A shares only; other classes may have different performance characteristics. ©2003 Morningstar, Inc. All Rights Reserved. The information contained herein is proprietary to Morningstar and/or its content providers; may not be copied or distributed; and is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. For more current performance information, please call Franklin Templeton Investments at 1-800-342-5236.

FOBS/03

Accide

BY LUISA KROLL AND EMILY LAMBERT

RICHARD SHERIDAN SPENT 18 YEARS AT INTERFACE SYSTEMS, AN ANN ARBOR, Mich. company that translated documents to the Web. As vice president of software development, managing 36 software engineers, he was bringing home a six-figure salary. "It was a very comfortable existence with great vacation and benefits and loads of stock [options] that were going to pay off big someday," recalls Sheridan, now 45.

In January 2001 Sheridan's luck swiftly turned. He was ordered to fire half his staff. "You might as well have told me to go out and shoot some of my friends," he says. Three months later he took a bullet himself; his boss delivered the bad news over the phone.

Sheridan contacted headhunters and prospective employers and got what he expected: no bites. Getting in touch with Thomas Meloche, a onetime colleague, Sheridan decided to start his own business. Along with two other software consultants, they met for 12 hours at a stretch in Sheridan's basement, hashing out how much each would invest (\$25,000 apiece from savings) and how long they could afford to work without an income (up to a year).

They called the business Menlo Innovations, to evoke both the heart of Silicon Valley and the "invention factory" in Menlo Park, N.J. set up by Thomas Edison in 1876. Sheridan's company would specialize in troubleshooting projects with an anthropological approach: Place a "scout" inside the client to study its employees' tech habits and shortcomings, develop software to solve a particular problem and bring the customer's data-processing department to Menlo for training.

Bad timing, everyone told Sheridan. With the Nasdaq off 60% from its high, funding from traditional sources like venture capital was out of the question. But not every new venture needs capital. Some of the ones that sell talent rather than goods need only enough startup capital for a desk, a phone and a month's rent.

Sheridan's group used a little more money than that, but found it could survive on a few clients, like the University of Michigan Health System, which needed a medical information database, and Domino's Pizza, for which it designed a Web-based store locator. Menlo broke even on revenue of \$200,000 in 2001. A year later it earned \$600,000 pretax on \$2 million in sales; Sheridan says the company is on track to net 30% on revenues of \$3 million in 2003.

Moral: If you get laid off, don't bother to look for another job—create one. Easier said than done. In a protracted downturn, launching a new business

Entrepre



MATTHEW GILSON FOR FORBES

The Fatal neur

You're a middle-age middle manager who gets laid off. You send out 100 résumés and get absolutely nowhere. Now what? Some people in this bind start their own businesses. A lucky few end up doing much better than they did while toiling for other companies.



On the right: Looking into
Richard Branson's world
company with risk-taking.

COVER STORY

can be even rougher. But what are the choices for many of the 8.4 million people who are out of work? A grim vista stretches across virtually all service industries, as well as manufacturing; new positions just aren't opening up at old businesses. Job search times surged in the first quarter to a 17-year high of 4.2 months. Tougher still for people who are older—particularly in their 50s and 60s—to find work and those who, like Sheridan, are experienced and were making good money as middle managers. The number of unemployed people age 45 and older has ballooned to 2.3 million. White-collar workers represent 46% of all people who were without work for 27 weeks or more in 2002,

reports Challenger, Gray & Christmas, the outplacement firm. Many will never again find work at existing companies.

Out of such dreary statistics comes a new class of self-starter, the accidental entrepreneur—someone who never considered owning a business until there was no other option. These entrepreneurs are making tough choices for themselves and their families, living in reduced circumstances, doing without the corporate comforts and resources they once took for granted, sometimes succeeding, very often failing, invariably struggling. But at least they're not waiting for the phone to ring.

For Bruce Fryer, 48, it's an all-or-nothing game. He has



Orange alert: Bruce Fryer put himself in hock to help this robot see better, faster.

invested \$100,000, most of his savings, and taken on a good chunk of bank debt to start MechVisual. This outfit, he hopes, will revolutionize the factory floor.

Fryer spent nine futile months circulating his résumé around California, Colorado and Utah. He had been laid off from a \$115,000-a-year job as director of business development, in a companywide reduction at Novell in 1998. Then he was let go from middle-management jobs at Interosa, an e-mail encryption outfit, and Menta software, which sold programs that allowed users to access Windows programs remotely, just weeks before each company collapsed.

A friend handed Fryer a lifeline: an introduction to Steven B. Skaar, a professor of aerospace and mechanical engineering at Notre Dame, who held three patents for a

D vision-guidance system for robots. His program used mathematical formulas to interpret video images in real time, eliminating the need for manual calibration of the visual software with the robot, and drastically reducing the time it takes to set up a robot to do its specialized task. Skaar was already working with Smurfit Stone Container Corp. on one application, but needed someone to help market the software more broadly. Fryer, whose first job out of college was as a plant engineer, saw big implications for moving large objects around the warehouse and on the assembly line. Skaar agreed to license the technology to Fryer for about 5% of sales and become chief scientist.

At first things seemed to go well. Viridian Capital Partners and another venture firm pledged \$1 million. Fryer finagled a trial run-through with the North American president of Swiss giant ABB, which has a large robotics division, and DaimlerChrysler, which sent over a rear-hatch assembly for a Dodge caravan and the right and left doors of a Dodge pickup.

But the \$1 million fell through. Viridian initially gave him only \$100,000. Fryer found himself \$180,000 shy of funds to finish the demo. He pleaded his case to 40 venture capitalists; they all turned him down. Desperate, Fryer took out a second mortgage, piled up \$25,000 of home-equity loans, charged \$40,000 on six credit cards, drained most of his 401(k) savings—even forced his son to get loans to finish his fourth year of college. In mid-January, when the 7-foot-high robot arrived on loan from ABB, Fryer was still short of cash. He went on his knees to Virid-



Seeking material wealth: Susan Firestone has a long road ahead.

ian, which provided another \$20,000 to build a robot platform, rent a 7.5-ton forklift and hire a couple of engineers. During a Mar. 11 test, setup time took only minutes, compared with a normal range of one day to several weeks. ABB reserves judgment on the system.

Today Fryer is even deeper in hock. Still, he just booked his first order, for \$35,000. Not much, but it allows him to borrow from the Small Business Administration. "I don't know how many times I've hung by my fingernails over the edge of the cliff," he says.

Ronald Meritt, 49, has developed a few digit callouses of his own—mostly through legal travails with bigger partners—until he learned to minimize financial risks. Laid off five years ago as a \$150,000-a-year (including bonus) director of customer service at Italian-owned SAES Pure Gas, Meritt confronted the prospect of

moving his family again. He liked San Luis Obispo, Calif., but there were no jobs. After 20 years of corporate toil, he now wondered how he could make a living by exploiting a simple idea.

To keep the kids entertained on road trips, he built a cloth-and-strap contraption to hold a portable TV/VCR in the car. Could he build a business around it? He made a pact with his wife: If he couldn't make it work on a \$100,000 home-equity loan, he'd pack up and find a job elsewhere. He got a patent covering the straps that went around headrests and the design for a carry case.

Meritt didn't want to bring in outside investors or tie up capital in manufacturing. So he signed a deal with Steel Horse, a maker of auto entertainment systems: Steel Horse would produce the Video Traveler (which includes a TV and VCR) and handle large retailers, paying a 5% royalty to Meritt. Meritt would deal with smaller clients, like Sharper Image's mail order division.

Sales of the \$400-to-\$600 device took off—then troubles set in. Steel Horse, now defunct, was on shaky grounds, even as it sold \$5 million worth of Video Travelers in 2000. While getting paid \$250,000, Meritt still thought he had another \$500,000 coming to him. On top of that, Steel Horse sued him for failing to defend his patents against Audiovox, which came out with a rival product. The case was eventually settled, and Meritt found a new partner. Under a new agreement with the U.S. subsidiary of \$50 billion (sales) Nissho Iwai, Meritt gets a royalty, the rights to sell the device in stores with fewer than 20 locations, a \$3,500-

a-month consulting contract and a warranty-processing deal that brings in \$120,000 to \$240,000 a year. The revenue flow is enough to cover Meritt Electronics' ten employees and leave its owner with an income "well into the seven figures." Meritt Electronics is also a supplier to GM's Hummer2 and will soon supply other GM brands. "This," he says, "is as good as it gets."

It hasn't gotten that good yet for Susan Firestone, 55. Her position as senior vice president of financial products was eliminated a year and a half after ACE Limited acquired Cigna Property & Casualty in 1999. Left with 24 weeks of salary plus an undisclosed severance payout, still less than her \$275,000-a-year total compensation, Firestone considered her options. She could fall into consulting or financial planning—like everyone else. Or she could pursue an interest and see where it took her.

Over the summer she had visited her daughter in Thailand and, like many tourists, had fallen in love with the luxurious silk fabrics and garments made in small villages. She had been an avid sewer, up until the time she entered the M.B.A. program at Wharton. A silk importing business might be just the thing to

supplement the income of her husband, a tenured pro-

fessor at Rutgers University. Getting in on the fashion end didn't interest her; a little research on home furnishings uncovered a \$2.5-billion-a-year market for just soft goods, which included pillows, throws and bedding.

Tapping into that business proved challenging. Firestone's network was saturated with insurance types. But by surveying other women from her outplacement service as well as quizzing acquaintances, she was able to discern what kinds of things might sell. (They liked plainer, smaller patterns and accessories with zippers tucked away at the edges; bright colors like orange and purple wouldn't work in most living rooms.) It helped that her daughter spoke Thai and her son-in-law's mother was a weaver in the province of Buriram. They connected her to suppliers who raise silkworms, spin and weave fabrics, and sew pillows. In one case language facility didn't help much. A pattern ordered for a client arrived with designs in bright yellow, instead of gold, and Firestone lost the sale.

So far, her investment has been modest: \$50,000—including \$20,000 for inventory and \$10,000 for travel. But business is tough. By placing her wares in two boutiques near Philadelphia (and one in Florida) and traveling to trade shows, Firestone has managed total sales of \$30,000. Some potential buyers have cri-

Second Chances

If necessity is the mother of entrepreneurial invention, Que Vista Drive East in Horseheads, N.Y. is a veritable maternity ward. Four of the six houses in the cul-de-sac belong to Corning executives. Make that former executives. The company has axed 19,000 employees worldwide in the last two years as demand collapsed for fiber-optic gear.

One of the four found a job in New Jersey; one retired. The other two are trying to start their own businesses. "There was no other way for someone with my job and salary level to stay in the area," says Ronald Karfelt, 42, who was a manager of hardware and electronics.

Living off five months' severance, Karfelt drafted a business plan last summer. His Photonic Controls provides design services for fiber-optic electronics. So far he has invested \$50,000 and hired three full-time and four part-time engineers. Revenues since October: \$250,000.

His next-door neighbor, George Soltysik, 54, is staying put. "It's a wonderful



place to live," he says. (He and his wife are active in the church and in the town orchestra.) Soltysik took "voluntary" early retirement from his job as a manager of engineering in March 2002. Rather than commute to a job for half his former salary, he launched an engineering consultancy that provides new-product development, market research and training. It's been tough, with only two clients. But he had some help from a state program, which let qualified people start a business while collecting unemployment, as long as they took 20 hours of small-business training classes

and completed a business plan.

Another Corning alum, Yvonne Geter, 50, has prior experience as an entrepreneur. More than a decade ago she started her own telecom consultancy. After blowing her savings, she landed at Corning as an IT product manager. Laid off late last year, she is determined to go off on her own again—this time, peddling toffee chocolates. She must build a separate kitchen in her home (recent quote from a contractor: \$5,000). But now Geter has set a limit: Once her \$36,000 in savings dips to \$3,000, she'll look for a job. —L.K.



Ray exports
goods to Shanghai
and Scotland.

His competition would
like to see him exported to
Scotland or Shanghai.

Ray can't say he blames them.

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Don't worry. There's a FedEx for that.SM

tiqued her wares as too "Amazonian." "I knew it wasn't going to be easy," she sighs. "You just don't really know how tough [it is] until you do it."

Fear of failure and the unknown pushes many accidental entrepreneurs to consider a franchise. Mac Johnson, 57, went to Home Instead Senior Care, an Omaha-based chain of firms furnishing nonmedical services like grocery shopping and light housework to the elderly who don't want to go into a nursing home (customers include everyone from stroke victims, people with dementia, even healthy individuals). The chain has 25,000 clients in the U.S., Canada and Japan.

Johnson, promoted twice in five years, had been a corporate vice president at the California State Automobile Association in San Francisco, overseeing 700 employees and bringing home \$280,000 a year. Then came the new chief executive in December 2001. "There are times in your career when you see the bullet leave the gun and know it will hit and there's nothing you can do," he recalls.

He put out calls to peers and recruiters, knowing that at his age he probably couldn't duplicate his salary and title. At the same time, Johnson and his wife, Susan, started thinking about a business. They considered starting an outdoor market with friends back in Omaha, but couldn't make the numbers work. They even looked at fast-food franchises, but didn't like the idea of having to put up a lot of capital. A friend of their son's suggested Home

Instead. This franchisor demanded a \$20,000 fee, plus proof of insurance for workers' compensation and liabilities, but otherwise left the

Johnsons

free to choose

how much to spend on an office, equipment, labor and so forth. They plowed through census data, looking for regions with growing populations of people 65 and older, and settled on Santa Barbara, Calif.

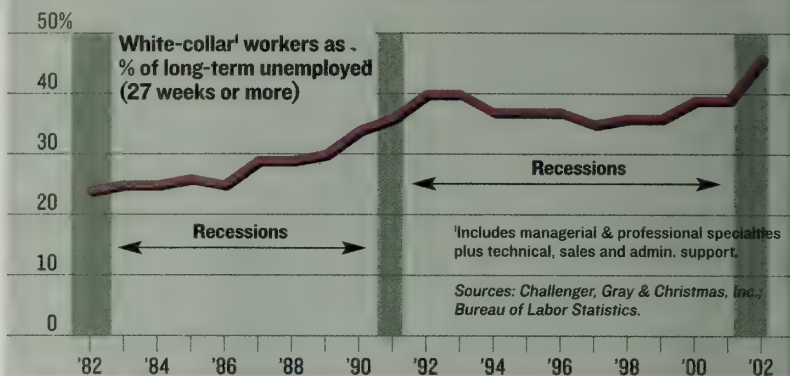
And they hustled. They placed newspaper ads for caregivers, visited rehabilitation practices, hospitals and retirement communities in the hopes of referrals, even took on clients who needed as little as three hours a day of care. "If you go into business for yourself, there shouldn't be anything you won't do," says Johnson, who has fixed meals and picked up prescriptions for a 92-year-old client. With ten customers, his business has lost \$25,000 so far this year. But with expected revenues of \$10,000 in May, Johnson hopes to cover his expenses and turn a corner.

Robert Ross thought his ticket to a new life was buying a business. A onetime senior vice president at Caminus Corp. (an energy-trading software and consulting outfit), Ross was out of a \$200,000-a-year job in the summer of 2001, four weeks before his stock options would have vested. He left with two months' severance pay. Then came 9/11, followed by the collapse of energy trading and Arthur Andersen, Ross' first employer.

Being 52 didn't help his prospects. A consulting firm

Waiting for Work

The ranks of the unemployed now total 8.4 million people. Finding a job is taking longer than at anytime in the past 17 years—4.2 months. The lag falls heavily on white-collar workers, 46% of those without jobs for 27 weeks or more.



planned with four former colleagues at Caminus fell apart after two backed out. Ross collapsed the LLC he'd formed. His thoughts turned to acquiring an existing enterprise.

In March 2002 he tried to buy an optical engineering business that made electronics for laser guns, as well as measuring and surveying devices. The owners of the Atlanta-based company would have lent him \$1.2 million to buy the company but expected him to put up an additional \$400,000 in cash. Ross walked away.

His eye next fell on a \$1 million (sales) moving and storage company. He was intrigued by the idea of expanding the logistics business, some 10% of sales, which Ross believed he could expand to 40%. The owners were asking \$650,000; after much haggling, they settled on \$375,000.

Optimistic, Ross went round to banks. Eight of nine sent him away empty. The last offered to lend him nearly the whole amount. He agreed to a loan covering 80% of the purchase price at prime plus 2.25% and took out a second mort-

"There are times in your career when you see the bullet leave the gun and know it will hit and there's nothing you can do."

gage to cover the rest. But late last year, six months after first finding the company, sales for the fourth quarter came in 60% below projections. When he asked to look at detailed accounting and payroll records, the owners told him to get lost. He agonized for a few more days. Then this past January, 48 hours before he was to become the new owner, he bailed out. Letterhead went into the fireplace; he lost \$10,000 in lawyers fees and other expenses. Despite the gloomy ride, Ross hasn't given up looking. "I have just as much intestinal fortitude today as I had 18 months ago," he says. "In fact, I think I'm stronger for it."

It isn't easy being your own boss, but if you have no other options you might grit your teeth and try it.



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Perturbation Theorem (Hard Step)

Complete manifold @ α
free real analytic embedding
 $F: M^n \rightarrow \mathbb{R}^N$ is a $(2,0)$ C^k Tensor field on M
 $\|F\|_k \ll 1$
 $V: M^n \rightarrow \mathbb{R}^N$
Basic Hamiltonian
Data: T, V
 T is C^2
 $Q(u)$
 $DT(u)$

$u_0 = 0$
 $u_{n+1} = u_n - 1$
 $u_n \in B$
 $\|u_n - u_{n+1}\| \leq$
est. $\|u_n\| = \|1\|$
 $\|h_n\| \leq \|(\phi) T(u_n)\| \leq$
 $M^{-1} \leq C$
 $\|u_n\| \leq M$
 $\|u_n\| \leq C$

A Beautiful
by Stefan B.



The Best & Worst Bosses

Which chief executives really earned their paychecks? You can't answer that question fairly by looking at only a year or two of results.

BY SCOTT DECARLO

CORPORATE SCANDALS. CHIEF EXECUTIVES IN HANDCUFFS. SHAREHOLDER values destroyed—it's perilous times for the folks in the top spots. In our annual look at chief executive compensation, we set out to determine America's best (and worst) bosses. By that we mean which chief executives delivered the best return to stockholders and while doing so took a paycheck that didn't make you gag. This year's number one boss: Amazon.com's Jeffrey Bezos, who has delivered a 55% annual return to shareholders since taking his Seattle-based e-tailer public in 1997.

Using our bang-for-the-buck measure, we searched our database for executives with at least six years' tenure as chief executive and a six-year pay history. The scorecard, tabulated in greater detail at forbes.com/ceos, uses four factors. One is a company's stock performance (including dividends) relative to that of its peers over the past six years. Others are stock performance during the chief's tenure and performance relative to the S&P 500 during that time. Finally, we look at annual average pay over six years, pay being measured by salary, bonus, cashed-in options and vested stock grants.

Bezos not only performed for stockholders but got paid an average of only \$81,559 over the past six years. The worst in our list: Walt Disney's Michael Eisner, who averaged \$122 million in pay since 1997 while delivering a lame -5% annual return to shareholders.

The statistics can't account for all circumstances. Some bosses scored badly even though they had started to relinquish pay and/or bonuses to make amends for a company's bad performance. Others worked in depressed industries, like airlines, and the comparison to competitors wasn't enough to rescue their scores.

On page 102 we profile Chief Gregg L. Engles of Dean Foods, who has given shareholders a 29% annual return since 1996. The ten best bosses in our bang-for-the-buck measure are listed on page 103. Five of the worst appear on page 104. One, Christopher Galvin of Motorola, is spotlighted.

Starting on page 109, we list pay packages of the 500 chief executives of America's biggest companies. This year we also take a look at the corporate governance of big companies (see p. 106).

F

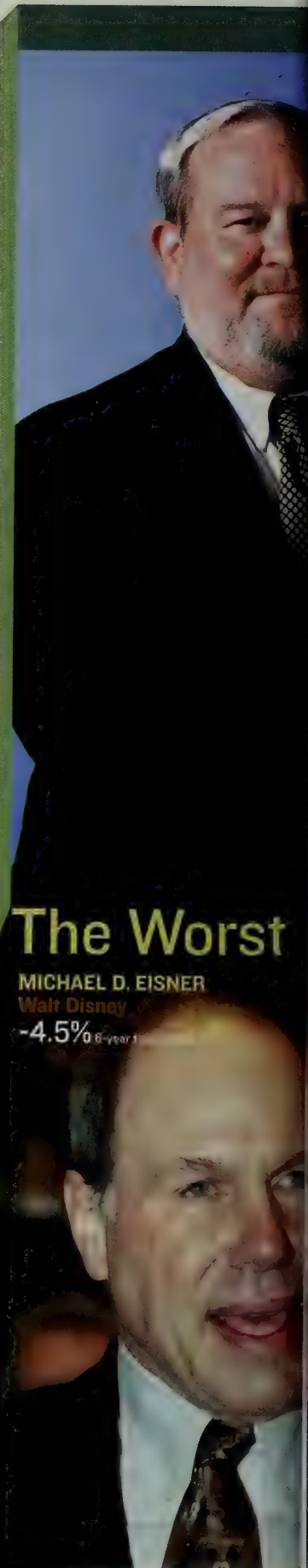
The Worst

MICHAEL D. EISNER

Walt Disney

-4.5% 6-year

ANDY FREEBERG (BEZOS); EMILE WAMSTEKER / BLOOMBERG NEWS (EISNER); NEW YORK COMMUNITY BANCORP VIA BLOOMBERG NEWS (FICALORA); DON HEUPEL / AP WIDEWORLD (GOLISANO)



The Best

MILLER

Amazon.com

55% 6-year total return



PARKER HENRY JEDY
First American

25% 6-year total return



JOSEPH R. FICALORE
New York Community

32% 6-year total return



B. THOMAS GOLISANO
Paychex

23% 6-year total return



DON'T BE FOOLED BY the boyish smile. Or the kicked-back style in his Dallas office, where he sips a Silk soy milk latte. Gregg L. Engles, the 45-year-old chief of Dean Foods Co., controls the nation's largest dairy processor—30% of the supply. Last year Dean pumped 2 billion gallons of milk, earning \$175 million on sales of \$9 billion. But Engles is not content with a skimlike 2% net margin; he wants more.

An ambition that spits in the face of reason. Per capita milk consumption has been dropping 1% a year, and most of the product is still hauled home in gallon jugs—a fact that doesn't jibe with today's dashboard-dining habits. Nevertheless, Engles sees growth in this shrinking business. He has delivered it so far: By consolidating big and small dairies and developing popular new brands, he has given shareholders a 29% annual return since 1996—good enough to earn the number 11 spot on our list of America's Best Bosses.

The key to earnings growth, says Engles, is to bulk up Dean's branded-foods division, Morningstar. Acquired in 1997 for \$960 million, Morningstar (and soy-product maker White Wave) now provides 15% of both revenues and operating income, but it could account for a whole lot more. It requires pushing the small-size stuff: While a gallon jug of white milk delivers single-digit gross margins, single-serve bottles of flavored milks and coffee drinks gross 45% to 55%. So Dean has been doing licensing deals with the likes of Hershey's, Folgers and Land O'Lakes to market milkshakes to teenagers, mocha lattes to folks in their 20s and 30s and lactose-free milk to minorities (70% of Hispanics, 80% of African-Americans and 90% of Asians are lactose-intolerant).

But look out. Here come Coca-Cola and PepsiCo with milk-based drinks like Nestlé Choglit and SoBe's Love Bus Brew, not to mention their heifer-hefty marketing budgets. "They don't know milk, and we do," says Engles. "This is our backyard."

Marketing, however, is not his forte. Engles is a market consolidator, spending most of the past decade eliminating his competition by buying it up. He pulled together a highly fragmented business with



Cold comfort: Engles wants to own the entire dairy case.

Got Growth?

Gregg Engles already dominates commodity milk. Now the Dean Foods chief aims to take over specialty moo juice—and bag higher profits.

BY LYNN J. COOK

The Best & Worst Bosses

deals on Swiss Dairy in California, Garelick Farms of New England and Southern Foods. He capped his acquisition streak by merging Suiza Dairy, the company he bought in 1993, with his chief rival, Dean Foods, in a \$2.5 billion deal (including \$1 billion of assumed debt) in 2001. Today there's little left to buy. Because Morningstar brands will have to fertilize Dean's organic growth, Engles hired Toby E. Purdy from Frito-Lay to head marketing and carved out a \$320 million advertising budget for 2002 and 2003.

The relationship curdled at first. When Purdy wanted to sign skateboarding champ Tony Hawk to sell Hershey's flavored milks, Engles balked. He'd never heard of Hawk and thought Purdy should woo the cast of *Friends*. Purdy won the match. Who drinks chocolate milk, he asked, teenage boys or 30-year-olds hooked on a dying sitcom? His instincts are paying off. Hershey's accounted for all of Dean's single-serve category growth in 2002.

He also signed up daytime talk-show host and comedian Wayne Brady for International Delight coffee creamers, which make up 6% of Morningstar sales. Purdy is funneling \$16 million to Land O'Lakes, including Dairy Ease (a lactose-free milk) for ads in English and Spanish; \$11 million will go to Folgers Jakada, a milk-based coffee drink competing with Starbucks' bottled cappuccinos in supermarkets. And then there's Silk. With a whopping \$75 million,

Dean Foods is pushing soy milk to health-conscious women—whether they're trying to lose weight, sneak estrogen or fight osteoporosis. Silk's latest coup: an exclusive three-year deal with Starbucks to offer the brand's light coffee and sell single-serve Silks at the counters. The Silk brand has breached just 8% of U.S. refrigerators but has a 64% repeat purchase rate.

Engles has always been a gambler. A law school graduate of Yale, he chucked the idea of a legal career after clerking for Anthony M. Kennedy before he was appointed to the Supreme Court and, instead, dabbled disastrously in Texas real estate in the 1980s. With financing from Citicorp, he picked up Reddy Ice for \$22 million from what is now 7-Eleven. He turned a \$17-million-a-year business into the largest packaged-ice company in the U.S.

Along the way Engles discovered parallels between

ice and dairy. Both were produced in aging, undercapitalized plants; perishability dictated that each had to be shipped directly to stores; both were highly fragmented businesses. In 1993 Engles did a \$100 million LBO of a down-and-out Puerto Rican dairy called Suiza (Spanish for Swiss). Cleaning up Suiza's operations, Engles quickly realized he could squeeze a few drops of inefficiency on the mainland, too. Each time he bought a dairy, he cut redundant capacity, combined delivery routes and upgraded equipment. Among his stable of brands: Borden, Oak Farms, PET, Schepps, Country Fresh and Purity, as well as house brands for Wal-Mart and Albertsons. Suiza went public in 1996, hitting \$1 billion in sales the next year.

Curiously, packaging technology from Europe repeals the old laws of perishability that got Engles interested in this business. By pasteurizing and homogenizing, and blow molding and filling bottles in a sterile environment, Dean now produces milk-based drinks that don't require refrigeration and can sit on a shelf for 150 days. Instead of delivering directly to stores, Morningstar can ship drinks through a network of warehouses and sell them in the soda aisle of grocery stores. At \$12 million per filling line (which can do 18,000 bottles per hour), the technology doesn't come cheap. But, as Engles points out, "Somebody was going to do this. We're trying to be first." And, of course, biggest. **F**

Best-Performing Bosses

Rank	Chief executive officer / company	Tenure as chief	Annualized total return		6-year average compensation (\$mil)	Stock owned (%)
			during tenure (%)	6-year (%)		
1	Jeffrey P. Bezos / Amazon.com Cheerleading founder led Amazon through bursting bubble into profitability for first time, in 2002. Low salary; stock worth \$2.5 billion.	9	55 ¹	55	0.1	27.6
2	Joseph R. Ficalora / New York Community Queens native built collection of New York, New Jersey banks into sixth-largest thrift in the nation. Earnings up 119% last year, stock 15%.	10	37 ¹	32	1.6	1.7
3	B. Thomas Golisano / Paychex Started \$1 billion payroll business with \$3,000 in 1971. Thrice independent candidate for New York governor gives heavily to charity in Rochester, N.Y.	32	29 ¹	23	0.8	10.5
4	Charles W. Ergen / EchoStar Commun After trouncing rival DirecTV over past year, satellite TV maven will be harder pressed to maintain 40% growth now that Rupert Murdoch has stake in rival.	23	40 ¹	51	3.5	50.0
5	Parker S. Kennedy / First American Boom in home sales pumped revenues 25% to \$4.7 billion for title search and data conglomerate. Merger with rival US Search due to close this summer.	10	18	25	0.9	4.5
6	Dane A. Miller / Biomet Outspoken critic of excessive executive pay backs it up: has yet to crack \$500,000 in combined salary and bonus. Shares up 84% since 2000.	25	31 ¹	28	0.4	3.0
7	Salomon Levis / Doral Financial With 2002 earnings rising 60%, shares 37% and dividend 31%, took first increase in pay in five years, to \$1.8 million.	13	42	47	3.7	0.7
8	Vernon W. Hill II / Commerce Bancorp Founder Hill built Philadelphia-area bank on fast-food philosophy: convenience and roadside locations. Earnings per share up 35% in past year.	30	25 ¹	28	1.6	2.0
9	Barrett A. Toan / Express Scripts Former state welfare administrator runs pharmacy benefit manager by buying drugs in bulk. Paying off: Net income jumped 62% to \$203 million.	11	38 ¹	36	4.1	0.2
10	Mark C. Pigott / Paccar Despite the slumping market, the son of truck manufacturer Paccar founder was able to triple dividend to 70 cents on the back of strong sales.	6	20	21	2.2	1.0

Returns as of Apr. 4. ¹Return is for period less than tenure. Source: FT Interactive Data via FactSet Research Systems.

Booby Prize

Chris Galvin picked a bad time to inherit the top spot at Motorola. Then he made some bad decisions.

BY BERNARD CONDON



HOW DID CHRISTOPHER GALVIN MAKE OUR DISHONOR Roll this year with a meager \$3.2 million in average annual pay over the past six years? That's scarcely a lavish sum alongside the paychecks highlighted on page 109. But Galvin's dubious achievement is only in small part a reflection of his pay. Mostly, it commemorates the wealth destruction that Motorola shareholders have suffered at his hands. When Galvin moved into the corner office in 1997, the stock was trading at \$20. Now it's at \$8.

Galvin, now 53, took over the company when it was the world leader in mobile phone handsets, with a 31% global share. He was slow to seize on the shift from analog to digital wireless, and lost ground to the hotshot Finnish manufacturer Nokia and to the newly ascendant Samsung of Korea. Motorola's global share has drooped to 19%. At least the recent trend is positive, and the company has recaptured its lead in the U.S. market.

Two other parts of Motorola are still very sick. One makes

base stations for wireless service providers and other nonconsumer telecom gear. The other is a semiconductor business that is still not profitable after the closure of 14 of its 22 factories. Why hasn't Motorola shuttered these divisions? Deutsche Bank analyst Brian Modoff offers a theory: "The grandson of the founder doesn't want to be responsible for taking the company apart."

Other wireless equipment makers haven't done well recently, either—notably Ericsson. Motorola nonetheless comes up short within its peer group (telecommunications), which includes not only depressed equipment makers like Lucent but also some robust service providers like Verizon Communications. Ericsson isn't in the comparison group because our pay survey excludes foreign companies.

To his credit, Galvin did not reprice his options as the stock collapsed. But he got 1 million new options last year, which will reward him well even if all he does is restore the stock to its price when he got the top job. His \$1.5 million cash bonus last year was

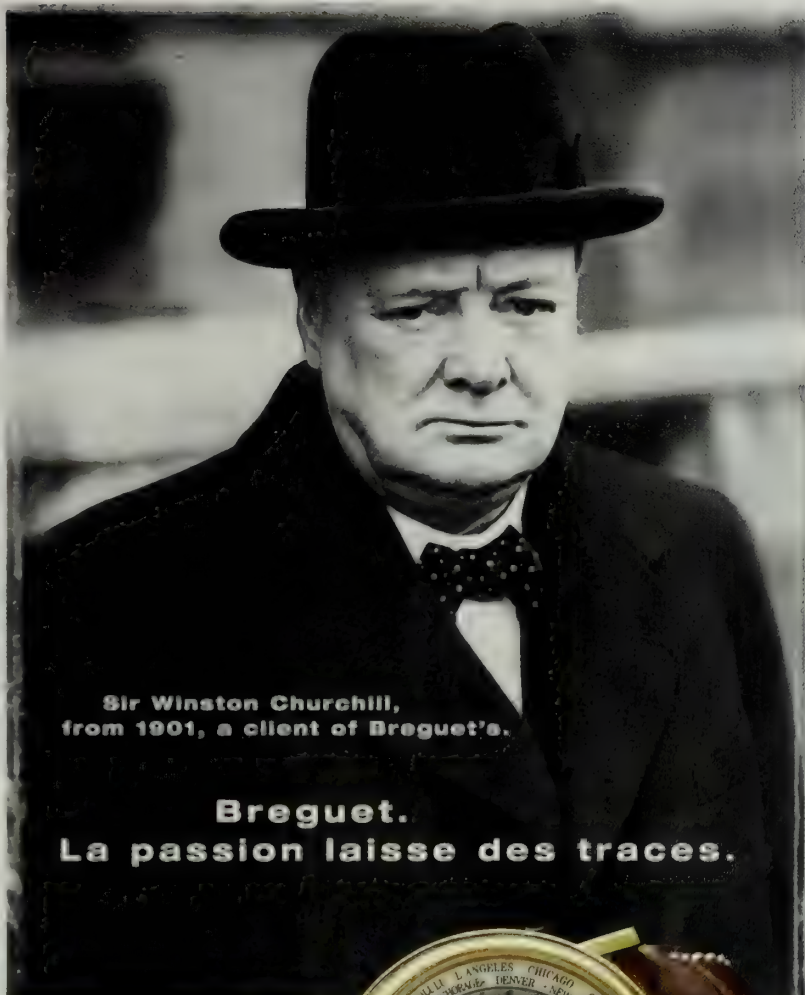
partly for returning the company to "profitability." Just how profitable is open to question. The company says it earned 14 cents per share last year excluding "special items." Add those back and the figure drops to a loss of \$1.09 per share.

Motorola says Galvin has the guts to make tough decisions: He cut 56,000 jobs—more than a third of the total—in two years and has replaced or reshuffled 75% of his senior officers. No plans to replace the most senior one, though.

Dishonor Roll

Chief executive officer / company	Tenure as chief	Annualized total return		6-year average compensation (\$mil)	Stock owned (%)
		during tenure (%)	6-year (%)		
Michael D Eisner / Walt Disney Took \$5 million bonus for mediocre 2002 despite angry shareholders and \$700 million in past perks.	19	7	-4.5	121.8	0.7
Richard Jay Kogan¹ / Schering-Plough Just departed chief has plenty to retire on while shareholders' nest eggs are worth 41% less than last year.	7	6	2.1	22.8	— ²
Jeffrey C Barbakow / Tenet Healthcare Cashed out \$111 million in stock, awarded \$4 million bonus before a federal investigation into overbilling.	10	10	-0.2	21.9	0.3
Henry R Silverman / Cendant Even with recent rally, stock still off 31% over two years. Got \$8 million bonus, will reap \$1 million salary at retirement.	13	15	-8.5	52.1	0.8
Christopher B Galvin / Motorola Market value has dropped 60% during his tenure. Despite \$1.09 per-share loss in 2002, got \$1.5 million bonus.	6	-12	-12.1	3.2	0.3

Returns as of Apr. 4. ¹Kogan retired at the company's annual meeting on Apr. 23; a successor has yet to be named. ²Less than 0.1%. Source: FT Interactive Data via FactSet Research Systems.



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from 1901, a client of Breguet's.

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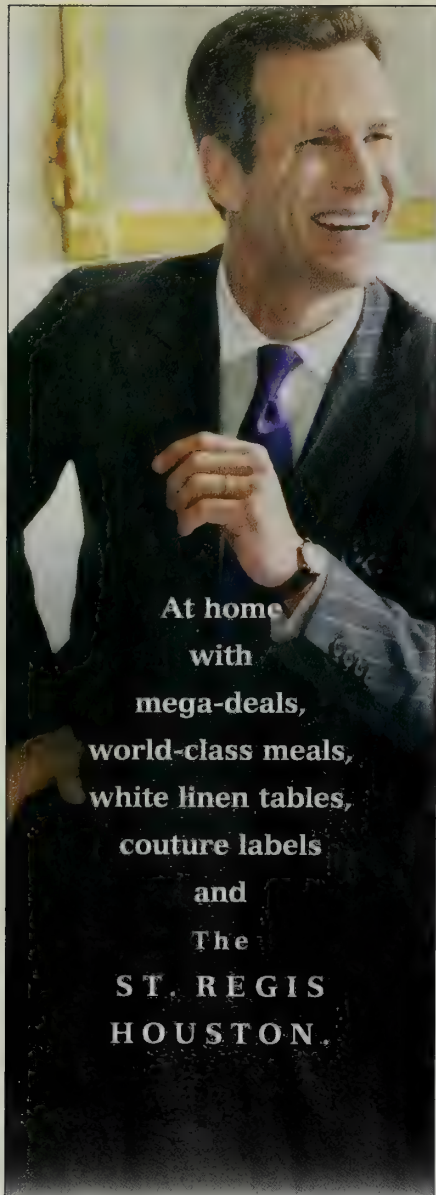
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Does the Board Have a Backbone?

Ideally, you want more than great performance from a chief executive. You want accountability.

BY MICHAEL K. OZANIAN AND SCOTT DECARLO

BY NOW EVERYONE KNOWS THE ROLE that shoddy corporate governance played in the downfall of companies like Adelphia, Enron, HealthSouth and Tyco. All had boards of directors that looked the other way while their chief executives ran roughshod over the auditing committees and often fattened their personal bank accounts while the businesses fell apart.

Now take a look at our list of 13 companies that delivered superior shareholder returns relative to executive compensation. A curious trend pops out: Many are rife with weak corporate governance practices—things like too many insider board

members, inadequate board structures and ineffective bylaws, like those that hinder shareholders' rights to call special meetings. Our ratings on governance start with scores from Institutional Shareholder Services (ISS) of Rockville, Md. We took those companies that scored in the top 15% for stock performance versus chief executive compensation and had below-average board scores compared with both the overall market and their industry.

You might conclude from this that corporate governance is irrelevant to a company's performance. But be careful: While governance is not a stock-picking tool, at the least it can serve as a warning sign that

The Best & Worst Bosses

company and its shareholders may be at risk from an untethered chief executive—tellar record notwithstanding.

Tenet Healthcare and its chief, Jeffrey Barbakow, provide a cautionary tale. At this time last year Barbakow had delivered a terrific six-year stock performance of 22% annually. Then the roof fell in. Tenet is under investigation for excessive Medicare payments and performing unnecessary medical procedures. The stock is off 72% from its October 2002 high and in April Tenet posted a third-quarter loss of \$55 million.

It scores low on clean government. Tenet's board is dominated by insiders—people who either work at the company or get business from it. Two years ago Barbakow defeated a proxy fight to add outsiders to the board. This April Barbakow was forced from Tenet's board. But there is a lesson to be learned. "Barbakow played the stock performance card

and only paid lip service to governance," says Patrick McGurn, a senior vice president at ISS.

Seven of the companies on our list sport high-flying stocks, trading at multiples of projected 2003 earnings above the S&P 500's multiple of 16. Among them: Bed Bath & Beyond, EchoStar Communications, Electronic Arts and Harley-Davidson.

There are exceptions. Dell Computer and Berkshire Hathaway score poorly in our ranking because revered founders Michael Dell and Warren Buffett call all the shots, but that in itself doesn't make it likely these companies will go the way of Enron. Perhaps it's okay if an autocrat runs your company, so long as he is an acknowledged genius and has delivered huge returns to public holders. But if the fellow running a company is a mere mortal, you're better off if he's getting a little adult supervision from the board. **F**

Spineless Boards

COMPANY / industry concerns	BOARD OF DIRECTORS SCORE ¹		P/E 2003 estimate
	relative to market	relative to industry	
AdvancePCS / health care directors don't own enough stock	11	18	16
Bed Bath & Beyond / specialty retailing lack of board independence	3	26	32
Berkshire Hathaway / insurance lack of board independence	1	2	23
Commerce Bancorp / banking lack of board independence	23	24	15
Dell Computer / computers staggered terms for directors	12	36	29
EchoStar Communications / broadcasting dual classes of stock	6	15	51
Electronic Arts / software no independent nominating committee	16	49	23
Express Scripts / health care powerful antitakeover defenses	14	25	18
Harley-Davidson / motorcycles powerful anti-takeover defenses	8	30	19
Lennar / home building no independent audit committee	3	8	7
New York Community / banking no independent nominating committee	41	46	12
PPL / utility staggered terms for directors	22	23	10
Quest Diagnostics / health care no independent nominating committee	18	46	15

¹A score of 30 means that the company's board is better than 30% of the companies in the Russell 3000 and the S&P 400 (relative to market) or its rivals (relative to industry). Sources: Institutional Shareholder Services; Thomson First Call via FactSet Research Systems. Get board scores on all 195 bosses at Forbes.com/ceos.



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- ♦ Get a free online insurance quote
- ♦ Check out our Estate Planning calculator
- ♦ Visit our special business owner site
- ♦ Locate a Prudential office near you

"What kind of life insurance do I need?"

Term? Variable? Universal? It really depends on your financial goals. A licensed financial professional will discuss your individual needs and offer guidance for which policy best fits you and your family.

"How much coverage should I have?"

Again, there's no one answer. Your income, age, the ages of your children, whether or not you own a business, and the size of your mortgage are just a few factors that can affect the amount of coverage you need. Your financial professional can review your individual situation and help you arrive at an amount that's right for you.

"How can I best protect my business or estate?"

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Executive Pay

What the Boss Makes



THE CHIEF EXECUTIVES OF AMERICA'S BIGGEST COMPANIES TOOK A PAY HIT LAST YEAR.

As a group they earned \$3.1 billion in total compensation, down 35% from the previous

year. FORBES' definition

of total pay includes the

latest fiscal year's salary

and bonuses; "other"

compensation, such as vested restricted stock

grants and perks; and "stock gains," the value

realized by exercised stock options. For more

data on CEO pay, go to www.forbes.com/ceos.

The 10 Biggest Paychecks

Rank	CEO / COMPANY	1-YEAR TOTAL COMPENSATION STHOU
1	Jeffrey C Barbakow / Tenet Healthcare	116,683
2	Dwight C Schar / NVR	94,303
3	Michael S Dell / Dell Computer	82,306 ⁵
4	Irwin M Jacobs / Qualcomm	63,551
5	Barry Diller / USA Interactive	53,068 ⁵
6	Dan M Palmer / Concord EFS	43,362 ⁵
7	Charles T Fote / First Data	39,223
8	Orin C Smith / Starbucks	38,773
9	Richard S Fuld Jr / Lehman Bros Holdings	29,752
10	Maurice R Greenberg / American Intl Group	29,354 ¹¹

Company / Chief Executive	RANK AMONG 500 CEOs	SALARY & BONUS \$THOU	1-YEAR CHANGE %	OTHER COMPENSATION \$THOUSANDS	STOCK GAINS \$THOUSANDS	1-YEAR TOTAL \$THOUSANDS	5-YEAR TOTAL \$THOUSANDS	STOCK OWNED VALUE \$MIL
Abbott Laboratories / Miles D White	165	2,747	-23	2,392	33	5,172	28,844	21.6
Adelphia Commun / William T Schleyer	276	3,000 ¹	NA	—	—	3,000	NA	—
Adobe Systems / Bruce Chizen	174	1,108	-2	48	3,905	5,062	25,891 ⁴	— ⁷
AdvancePCS / David D Halbert	24	2,264	53	—	17,136	19,401	29,069	52.0
AES / Paul T Hanrahan	410	1,406	NA	40	—	1,446	NA	0.4
Aetna / John W Rowe	85	3,500	75	6,106	—	9,606	16,300 ⁴	3.5
Affiliated Computer / Jeffrey A Rich	50	1,575	5	14	12,040	13,629	28,665 ³	2.3
Aflac / Daniel P Amos	35	3,755	52	152	12,157	16,063	85,320	280.1
Agilent Technologies / Edward W Barnholt	462	925	-2	29	—	954	12,091 ³	0.7
Air Prods & Chems / John P Jones III	311	1,751	5	293	500	2,544	NA	5.2
Albertsons / Lawrence R Johnston	108	3,730 ¹	NA	3,788	—	7,518 ⁵	NA	2.4
Alcoa / Alain J P Belda	149	2,005	-18	361	3,450	5,817	54,714 ³	18.4
Allergan / David E I Pyott	347	2,016	16	59	—	2,074	16,950	3.5
Allied Waste Inds / Thomas H Van Weelden	368	1,202	0	512	129	1,844	9,015	18.2
Allmerica Financial / Michael P Angelini ¹⁰	487	200 ¹	NA	—	—	200	NA	0.2
Allstate / Edward M Liddy	138	4,135	278	2,136	—	6,271	24,690	10.0
Alltel / Scott T Ford	214	3,005	NA	834	—	3,839	NA	2.4
Altria Group / Louis C Camilleri	143	3,173	NA	2,366	478	6,017	NA	13.4
Amazon.com / Jeffrey P Bezos	493	82	0	—	—	82	410	2,830.7
Ambac Financial Group / Phillip B Lassiter	376	1,410	-9	329	—	1,739	60,255	65.1
Amerada Hess / John B Hess	152	2,400	-4	3,364	—	5,764	15,712	197.2
Ameren / Charles W Mueller	439	1,080	11	137	—	1,217	4,950	1.8
American Electric / E Linn Draper Jr	445	1,054	-34	135	—	1,189	7,214	2.9
American Express / Kenneth I Chenault	38	3,750	17	4,221	7,920	15,891	51,549 ⁴	47.5
American Finl Group / Carl H Lindner	408	1,366	44	95	—	1,461 ⁵	8,182	199.2
American Intl Group / Maurice R Greenberg	10	6,000	NM	11,193	12,161	29,354	140,734 ¹¹	2,343.2
American Standard / Frederic M Poses	238	2,400	9	1,061	—	3,461	10,471 ⁴	15.1
AmerisourceBergen / R David Yost	422	1,357	13	—	—	1,357	7,431	20.2
AmerUs Group / Roger K Brooks	374	1,420	-10	364	—	1,784	8,514	6.6
Amgen / Kevin W Sharer	53	2,780	55	514	9,821	13,115	56,047 ³	3.6
AMR / Donald J Carty	215	588	-72	748	2,480	3,813 ⁵	19,953 ³	0.6
AmSouth Bancorp / C Dowd Ritter	179	3,696	34	1,118	—	4,814	29,013	17.8

notes on page 124.

Executive Pay

What the Boss Makes

Company / Chief Executive	RANK AMONG 500 CEOs	SALARY & BONUS \$THOUS.	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	1-YEAR TOTAL	5-YEAR TOTAL	STOCK OWN VALUE \$MIL.
\$THOUSANDS								
Anadarko Petroleum / Robert J Allison Jr	142	2,275	-30	248	3,606	6,130	57,470	24
Analog Devices / Jerald G Fishman	71	850	-28	3,874	5,895	10,619	73,043	0
Anheuser-Busch Cos / Patrick T Stokes	29	4,425	NA	147	13,471	18,043 ⁶	NA	20
Annaly Mortgage Mgmt / Michael A J Farrell	248	3,241	94	—	106	3,347	6,532	2
Anthem / Larry C Glasscock	229	3,332	9	292	—	3,624	21,817 ⁴	1
AOL Time Warner / Richard D Parsons	435	1,000	NA	264	—	1,264	NA	0
Aon / Patrick G Ryan	235	1,125	-57	330	2,079	3,534	17,858	558
Apache / G Steven Farris	358	1,650	NA	292	—	1,942	NA	15
Apartment Investment / Terry Considine	472	710	-26	—	—	710	6,200	58
Apollo-Education Group / Todd S Nelson	141	3,075	NA	—	3,120	6,195	NA	0
Apple Computer / Steven P Jobs	328	2,269 ¹²	NM	—	—	2,269	86,265	—
Applied Materials / James C Morgan	464	854	6	9	—	863	69,039	60
Aramark / Joseph Neubauer	198	2,350	2	187	1,700	4,237	19,793	525
Archer Daniels / G Allen Andreas	299	2,558	7	153	—	2,711	12,219	48
Archstone-Smith / R Scot Sellers	210	2,451	4	1,482	—	3,933	14,030	7
ArvinMeritor / Larry D Yost	309	2,424	189	130	—	2,554	8,688	5
Ashland / James J O'Brien	460	905	NA	88	—	993 ⁶	NA	2
Associated Banc-Corp / Robert C Gallagher	417	1,200	25	81	123	1,404	3,991 ³	8
Astoria Financial / George L Engelke Jr	44	1,475	-27	37	12,797	14,309	27,433	30
AT&T / David W Dorman	289	1,770	NA	998	—	2,768 ⁵⁶	NA	11
AT&T Wireless / John D Zeglis	239	2,349	15	1,100	10	3,459 ⁵	NA	1
Automatic Data / Arthur F Weinbach	211	909	-22	1,244	1,769	3,921	33,675	17
AutoNation / Michael J Jackson	362	1,893	0	4	—	1,898 ⁵	4,813 ⁴	0
AutoZone / Steve Odland	287	2,753	NA	34	—	2,787	NA	4
Avery Dennison / Philip M Neal	196	2,235	63	64	1,979	4,278	31,547	6
Avnet / Roy Vallee	332	1,000	-28	186	1,046	2,231	8,242	1
Avon Products / Andrea Jung	162	2,688	47	56	2,483	5,228	14,464 ³	11
Baker Hughes / Michael E Wiley	240	1,459	-31	1,991	—	3,451	8,899 ⁴	6
Bank of America / Kenneth D Lewis	84	6,875	5	2,768	—	9,643	21,161 ⁴	38
Bank of New York / Thomas A Renyi	168	1,000	-54	665	3,495	5,160	67,912	20
Bank One / James Dimon	191	4,000	0	416	—	4,416	16,172 ⁴	77
Banknorth Group / William J Ryan	242	1,583	6	113	1,712	3,409	12,319	2
Baxter Intl / Harry M Jansen Kraemer Jr	390	1,319	-6	223	33	1,575	13,737	11
BB&T / John A Allison IV	193	1,852	1	1,251	1,255	4,357	17,202	11
Bear Stearns Cos / James E Cayne	12	10,207	97	18,161	—	28,368	132,259	501
Becton Dickinson / Edward J Ludwig	345	1,600	10	87	408	2,095	5,820 ³	2
Bed Bath & Beyond / Warren Eisenberg ²³	136	792	6	344	5,270	6,405	29,790	223
BellSouth / F Duane Ackerman	132	2,319	-23	1,362	2,910	6,592	24,005	6
Berkshire Hathaway / Warren E Buffett	491	100	0	—	—	100	500	35,292
Best Buy / Bradbury H Anderson	398	1,512	NA	13	—	1,525 ⁶	NA	55
Biogen / James C Mullen	74	1,908	86	4	8,274	10,185 ⁵	NA	1
Biomet / Dane A Miller	481	494	9	17	—	511	2,137	238
Black & Decker / Nolan D Archibald	48	4,021	96	304	9,482	13,807	82,585	12
H&R Block / Mark A Ernst	394	1,471	30	78	—	1,548	NA	3
Boeing / Philip M Condit	247	2,530	-3	444	381	3,356	29,014	10
Boise Cascade / George J Harad	321	1,883	25	163	338	2,384	9,341	0
BOK Financial / Stanley A Lybarger	339	800	28	22	1,312	2,134	6,238	3
Boston Properties / Edward H Linde	402	1,500	200	—	—	1,500	3,602	318
Boston Scientific / James R Tobin	327	1,590	16	61	673	2,324	5,861 ³	1
Bristol-Myers Squibb / Peter R Dolan	361	1,100	-53	801	—	1,901	7,022 ⁴	4
Brown-Forman / Owsley Brown II	420	868	-43	514	—	1,382	10,310	833
Burlington Santa Fe / Matthew K Rose	436	1,118	62	1,052	—	2,170	4,903 ⁴	1
Burlington Resources / Bobby S Shackouls	407	2,170	4	2,219	—	4,389	15,366	11
Cablevision NY Group / James L Dolan	411	1,600	-46	5,508	—	7,108 ⁵	24,739	42

Footnotes on page I24.

Executive Pay

What the Boss Makes

Company / Chief Executive	RANK AMONG 500 CEOs	SALARY & BONUS \$THOUS	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	1-YEAR TOTAL	5-YEAR TOTAL	STOCK OWNED VALUE \$MIL
						\$THOUSANDS		
Calpine / Peter Cartwright	23	994	-47	38	18,891	19,923 ⁵	50,089	0.7
Campbell Soup / Douglas R Conant	255	2,929	NA	309	—	3,237	NA	3.2
Capital One Financial / Richard D Fairbank	492	— ⁸	NA	97	—	97	169,535 ⁴	27.9
Cardinal Health / Robert D Walter	107	3,701	32	382	3,484	7,568	27,065	263.3
Caremark Rx / Edwin M Crawford	102	1,362 ⁸	5	235	6,440	8,036	21,497	0.9
Caterpillar / Glen A Barton	310	2,093	-8	303	157	2,553	12,207	5.5
CDW Computer Centers / John A Edwardson	268	1,676	NA	1,410	—	3,086	NA	8.2
Cendant / Henry R Silverman	43	11,088	41	3,666	—	14,753	268,863	102.7
CenterPoint Energy / David M McClanahan	413	1,222	NA	212	—	1,434 ⁶	NA	0.5
Centex / Laurence E Hirsch	175	4,950	55	83	—	5,033	19,711	63.1
CenturyTel / Glen F Post III	163	1,600	122	733	2,874	5,207	16,627	6.7
Charter Commun / Carl E Vogel	357	1,750 ¹	NA	197	—	1,947	NA	— ⁷
Charter One Finl / Charles John Koch	257	1,817	15	15	1,401	3,233	11,496	23.5
ChevronTexaco / David J O'Reilly	183	1,775	-70	2,235	692	4,702	18,404 ³	2.9
Chiron / Howard H Pien	416	760 ¹	NA	650	—	1,410	NA	—
Chubb / John D Finnegan	301	2,700 ¹	NA	—	—	2,700	NA	4.3
Cigna / H Edward Hanway	65	1,022	-72	6,786	3,786	11,594	49,802 ³	16.2
Cincinnati Financial / John J Schiff Jr	403	817	46	—	670	1,487	9,435	166.6
Cinergy / James E Rogers	70	2,490	-2	6,006	2,395	10,891	22,480	17.0
Cintas / Robert J Kohlhepp	478	450	-19	83	—	573	6,081	118.6

Age and experience: Charles Johnson, who has been at the helm of Franklin Resources for 46 years, has delivered a 32% (annualized) return since 1983.

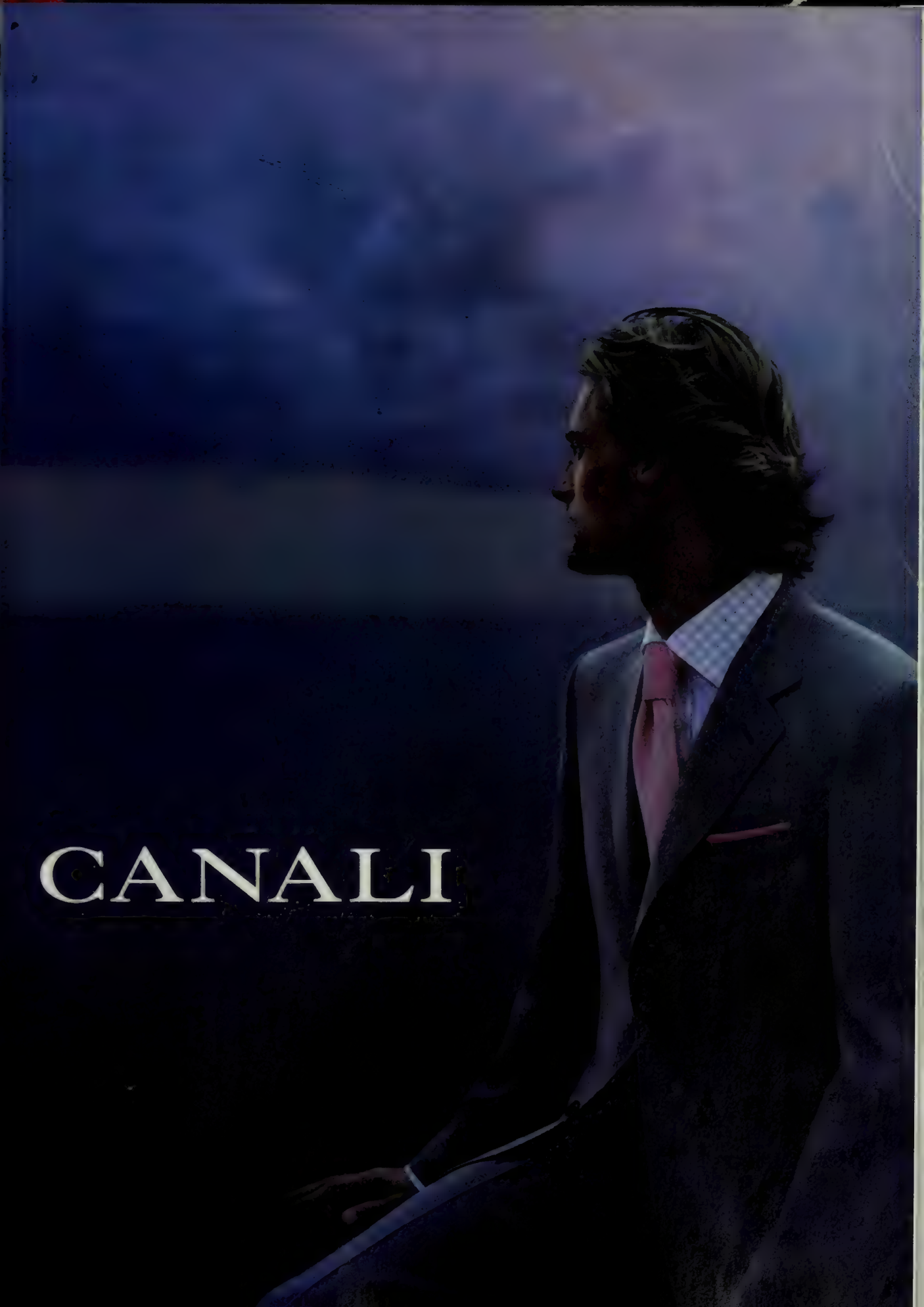
Circuit City Stores / W Alan McCollough	314	1,995	64	517	—	2,512	NA	0.9
Cisco Systems / John T Chambers	495	— ¹³	NM	—	—	—	280,168	28.2
CIT Group / Albert R Gamper Jr	431	1,275	NA	25	—	1,300	28,591	4.7
Citigroup / Sanford I Weill	27	1,000	-94	5,490	11,808	18,298	518,944	848.0
City National / Russell Goldsmith	154	1,933	14	24	3,700	5,657	12,273	160.2
Clear Channel Commun / L Lowry Mays	269	2,984	195	101	—	3,085	68,125	1,007.4
Clorox / G Craig Sullivan	236	3,008	102	505	—	3,512	27,643	10.1
CMS Energy / Kenneth Whipple	—	NA	—	—	—	—	NA	— ⁷
Coca-Cola / Douglas N Daft	148	5,500	10	331	—	5,831	23,891 ³	143.5
Coca-Cola Enterprises / Lowry F Kline	300	2,479	211	226	—	2,706	12,240 ⁴	2.9
Colgate-Palmolive / Reuben Mark	167	4,873	-1	288	—	5,160	177,247	304.6
Colonial BancGroup / Robert E Lowder	393	982	-28	574	—	1,556	10,001	71.5
Comcast / Brian L Roberts	117	7,240	NA	—	—	7,240 ⁶	NA	292.7
Comerica / Ralph W Babb Jr	354	1,316	28	645	—	1,961 ⁵	NA	2.3
Commerce Bancorp / Vernon W Hill II	319	2,250	29	171	—	2,421	8,616	59.4
Commerce Bancshs / David W Kemper	436	1,154	16	79	—	1,233	11,144	151.1
Compass Bancshares / D Paul Jones Jr	207	2,250	7	953	808	4,011	11,901	39.7
Computer Associates / Sanjay Kumar	59	1,000	11	29	10,978	12,007	NA	14.9
Computer Sciences / Van B Honeycutt	199	1,164 ⁸	-46	28	3,022	4,214	11,920	0.2
ConAgra Foods / Bruce Rohde	135	3,919	312	2,546	—	6,466	18,759	8.0
Concord EFS / Dan M Palmer ²⁴	6	1,159	35	81	42,122	43,362 ⁵	67,658	0.5
ConocoPhillips / James J Mulva	28	2,987	-39	15,157	—	18,144	38,747 ³	41.2
Conseco / William J Shea	470	750 ¹	NA	1	—	751	NA	— ⁷
Consolidated Edison / Eugene R McGrath	233	2,462	-2	72	1,007	3,541	11,301	0.8
Constellation Energy / Mayo A Shattuck III	369	1,801	NA	27	—	1,828	NA	2.6
Continental Airlines / Gordon M Bethune	159	1,715	-3	3,696	—	5,411	37,264	0.7
Corning / James R Houghton	459	950 ¹	NA	46	—	996	NA	6.1
Costco Wholesale / James D Sinegal	484	350 ¹⁴	0	24	—	374	8,482	123.8
Countrywide Financial / Angelo R Mozilo	131	6,112 ¹⁵	NA	570	—	6,682 ⁵	25,239 ³	17.4
Cox Communications / James O Robbins	234	2,245	47	1,293	—	3,537	13,436	11.3

Executive Pay

What the Boss Makes

Company / Chief Executive	RANK AMONG 500 CEOs	SALARY & BONUS \$THOUS	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	2-YEAR TOTAL	5-YEAR TOTAL	STOCK OWN- VALUE \$MIL
*THOUSANDS								
Crown Holdings / John W Conway	387	1,591	20	18	—	1,610	3,573 ⁴	0.4
CSX / Michael J Ward	452	892	NA	155	30	1,077 ⁹	NA	7.4
CVS / Thomas M Ryan	157	2,750	177	2,685	—	5,435	31,551	12.8
Dana / Joseph Magliochetti	412	1,365	46	72	—	1,437	7,203	1.4
Danaher / H Lawrence Culp Jr	140	2,604	115	471	3,152	6,227	9,665 ⁴	1.4
Darden Restaurants / Joe R Lee	158	1,861	10	1,238	2,326	5,425	19,408	18.0
Dean Foods / Gregg L Engles	109	3,200	72	1,625	2,671	7,496	19,288	48.8
Deere & Co / Robert W Lane	377	1,719	61	5	—	1,724	5,887 ⁴	2.3
Dell Computer / Michael S Dell	3	1,273	-50	34	80,998	82,306 ⁵	525,917	9,682.5
Delphi / J T Battenberg III	180	3,700	155	1,055	—	4,755	23,017	4.2
Delta Air Lines / Leo F Mullin	296	2,196	268	541	—	2,737	11,585	0.5
Devon Energy / J Larry Nichols	290	2,215	34	11	531	2,757	9,065	24.8
Dillard's / William Dillard II	305	2,085	194	76	411	2,572	7,979	21.9
Walt Disney / Michael D Eisner	457	1,000	0	5	—	1,005	714,619	243.5
Dollar General / David A Perdue Jr	—	NA	—	—	—	—	NA	1.0
Dominion Resources / Thos E Capps	75	2,300	2	1,662	6,216	10,178	24,401	18.5
Doral Financial / Salomon Levis	228	3,600	20	28	—	3,628	18,685	17.6
Dover / Thomas L Reece	405	1,472	4	4	—	1,476	14,808	6.7
Dow Chemical / William S Stavropoulos	270	1,840	NA	1,236	—	3,076 ⁶	NA	10.4
DTE Energy / Anthony F Earley Jr	317	1,943	-2	493	—	2,436	11,569	3.8
El du Pont de Nemours / Charles O Holliday Jr	251	3,285	203	33	—	3,318	14,498	17.9
Duke Energy / Richard B Priory	197	1,192	-64	3,069	—	4,260	21,493	0.7
Dynegy / Bruce A Williamson	219	1,500 ¹	NA	2,250	—	3,750	NA	—
E-Trade Group / Mitchell H Caplan	475	615 ¹	—	—	—	615	NA	—
Eastman Kodak / Daniel A Carp	243	3,358	123	26	16	3,400	9,601 ³	7.4
Eaton / Alexander M Cutler	172	2,696	69	1,222	1,178	5,096	11,632 ⁴	12.4
Ebay / Margaret C Whitman	468	670	76	135	—	805	44,784	612.6
EchoStar Commun / Charles W Ergen	260	625	-38	21	2,558	3,204	20,974	7,002.6
Ecolab / Allan L Schuman	30	2,425	17	172	15,440	18,037	47,978	15.5
Edison International / John E Bryson	190	2,020	-12	1,914	490	4,424	14,985	3.0
El Paso / Ronald L Kuehn Jr ¹⁶	442	1,200 ¹	NA	—	—	1,200	NA	2.2
Electronic Arts / Lawrence F Probst III	123	1,596	98	1	5,453	7,050	42,043	25.0
Electronic Data Sys / Michael H Jordan	396	1,540 ¹	NA	—	—	1,540	NA	—
EMC / Joseph M Tucci	382	1,675	-1	3	—	1,678	5,192 ⁴	0.6
Emerson Electric / David N Farr	245	1,425	15	1,944	—	3,369	5,731 ⁴	9.8
Energy East / Wesley W von Schack	308	2,198	0	356	—	2,554 ⁵	10,870	1.3
Entergy / J Wayne Leonard	122	2,413	-7	4,677	—	7,090	17,981 ³	0.6
Equity Office Prop / Richard D Kincaid	355	1,330	NA	627	—	1,958 ⁶	NA	9.3
Equity Residential / Bruce W Duncan	450	1,100 ⁴	NA	—	—	1,100	NA	2.4
Estée Lauder Cos / Fred H Langhammer	126	3,500	-27	3,484	—	6,984	37,739 ³	12.0
Exelon / John W Rowe	249	2,654	4	692	—	3,346	13,508 ⁴	32.4
Express Scripts / Barrett A Toan	69	2,126	17	119	8,875	11,120 ⁵	24,289	10.0
ExxonMobil / Lee R Raymond	16	5,550	7	1,700	16,367	23,616 ⁵	102,662	54.4
Family Dollar Stores / Howard R Levine	133	1,081	54	—	5,485	6,565	11,343	317.3
Fannie Mae / Franklin D Raines	63	4,292	4	7,337	—	11,629	34,889 ³	9.3
Federal-Mogul / Daniel E Macher	253	3,200	NA	68	—	3,268	NA	—
Federated Dept Stores / Peter J Lundgren	338	1,450	NA	702	—	2,152 ^{5,6}	NA	3.4
FedEx / Frederick W Smith	291	2,468	18	285	—	2,753	31,729	1,113.3
Fidelity National Finl / William P Foley II	127	3,811	21	182	2,928	6,921 ⁵	20,097	107.7
Fifth Third Bancorp / George A Schaefer Jr	241	2,600	5	364	450	3,414	21,491	42.3
First American / Parker S Ken	391	1,551	15	12	—	1,563	4,977	85.3
First Data / Charles T	7	1,832	29	664	36,727	39,223	NA	4.3
First Tennessee Natl / J Kenneth Glass	331	1,698	NA	205	328	2,231 ⁶	NA	12.3
First Virginia Banks / Barry J Strick	353	1,416	18	92	483	1,991	7,833	7.3

Footnotes on page t24.

A man with dark, wavy hair and a beard is shown in profile, looking out over a city at night. He is wearing a dark suit jacket, a light-colored checkered shirt, and a pink tie. The background is a dark, cloudy sky with a cityscape visible in the distance. The word "CANALI" is written in a serif font on the left side of the image.

CANALI

Executive Pay What the Boss Makes

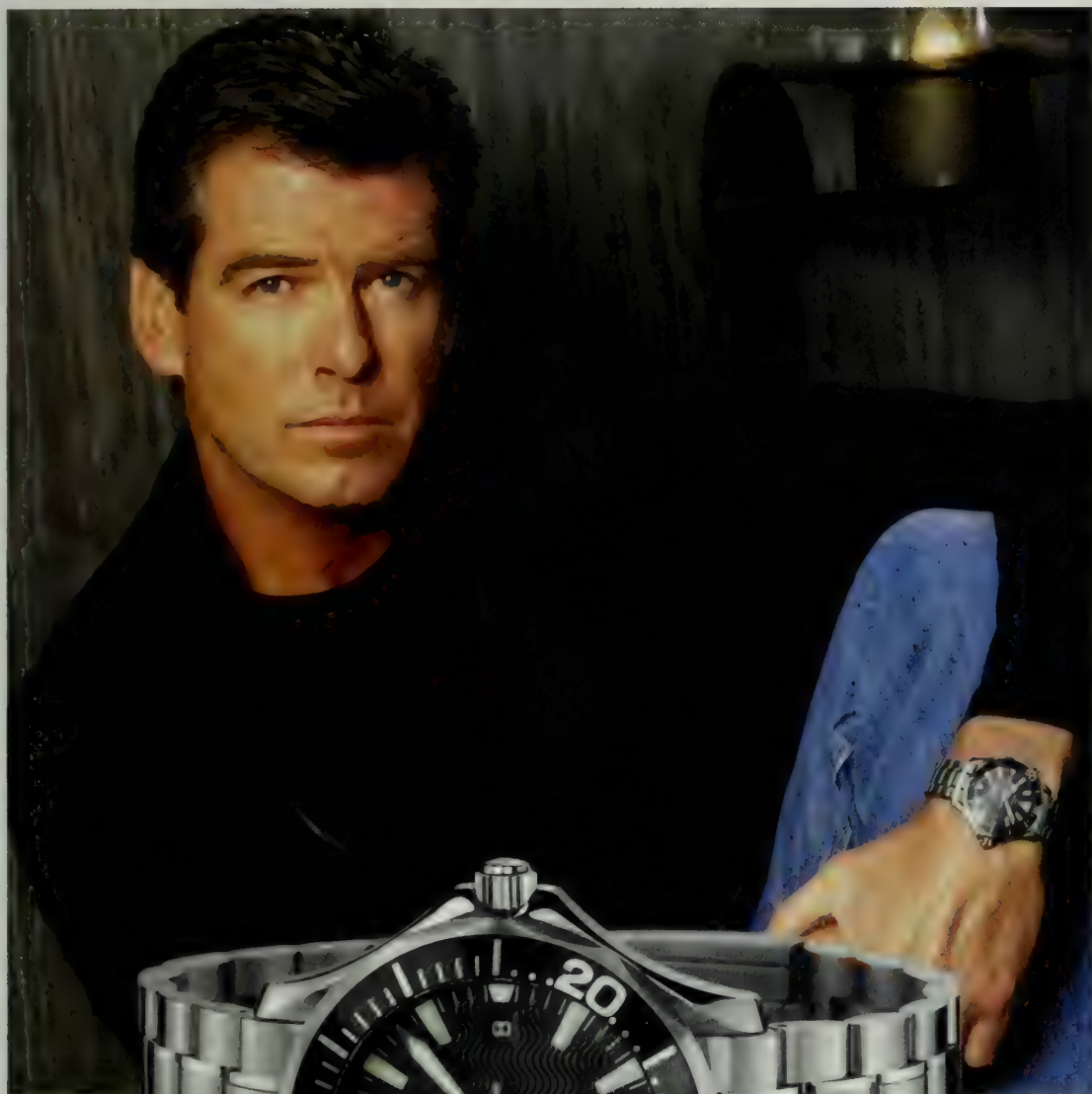
Company / Chief Executive	RANK AMONG 500 CEOs	TOTAL CASH STOCK	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	1-YEAR TOTAL	5-YEAR TOTAL	STOCK OWN VALUE \$MIL
						\$THOUSANDS		
FirstEnergy / H Peter Burg	284	1,396	-4	1,462	—	2,857	8,564	4.1
Fiserv / Leslie M Muma	406	1,458	8	12	—	1,470	18,702 ³	16.2
FleetBoston Finl / Charles K Gifford	285	992	-69	1,848	—	2,841	NA	18.4
Fleming Cos / Peter S Willmott ¹⁶	—	NA	—	—	—	—	NA	—
Fluor / Alan L Boeckmann	212	2,250	44	449	1,187	3,886	NA	7.2
Ford Motor / William Clay Ford Jr	222	— ⁸	NA	3,701	—	3,701 ⁵	NA	48.4
Forest Labs / Howard Solomon	425	1,305	7	24	—	1,329	197,830	444.0
Fortune Brands / Norman H Wesley	128	2,498	54	2,172	2,215	6,885	17,671 ³	5.2
Fox Entertainment / K Rupert Murdoch	88	7,357 ¹⁷	NA	1,849	—	9,206	NA	6,447.4
FPL Group / Lewis Hay III	218	1,997	20	1,754	—	3,751	NA	3.8
Franklin Resources / Charles B Johnson	473	555	-7	137	—	691	4,484	1,560.7
Freddie Mac / Leland C Brendsel	205	3,256	16	841	—	4,096 ⁵	35,676	26.6
Gannett / Douglas H McCorkindale	52	3,850	12	134	9,475	13,459	32,181 ⁴	36.4
Gap / Paul S Pressler	304	2,385 ¹	NA	190	—	2,575	NA	—
Genentech / Arthur D Levinson	352	1,946	2	78	—	2,024	92,377	0.1
General Dynamics / Nicholas D Chabreja	37	3,350	10	4,971	7,628	15,949	51,566	30.2
General Electric / Jeffrey R Immelt	36	6,900	10	8,199	950	16,049	NA	6.6
General Growth Prop / John Bucksbaum	485	225	0	—	—	225	900 ³	958.1
General Mills / Stephen W Sanger	150	1,726	-12	123	3,959	5,807	24,215	5.1
General Motors / G Richard Wagoner Jr	307	2,000	-14	564	—	2,564 ⁵	NA	5.0
Genuine Parts / Larry L Prince	330	1,540	46	20	686	2,247	8,259	8.2
Genzyme-General / Henri A Termeer	39	2,138	11	23	13,448	15,609 ⁵	46,086	22.0
Georgia-Pacific / Alston D Correll	423	1,236	0	117	—	1,353	12,983	4.0
Gilead Sciences / John C Martin	151	1,269	21	—	4,520	5,789	21,982	13.2
Gillette / James M Kilts	258	2,748	NA	481	—	3,228	NA	1.6
Golden West Finl / Marion O Sandler ²⁵	312	1,308	5	21	1,202	2,531	40,841	1,190.7
Goldman Sachs Group / Henry M Paulson Jr	103	6,854	-44	1,151	—	8,005	60,378 ³	282.0
Goodyear / Robert J Keegan	465	840	NA	13	—	853 ⁸	NA	0.4

Exercise less: Proceeds from exercised options accounted for 45% of total pay for the Super 500 Bosses versus 66% in the previous year. Average gain: \$2.8 million.

WW Grainger / Richard L Keyser	227	1,580	1	176	1,895	3,652	11,523	12.7
Great A&P Tea / Christian W E Haub	438	1,187	54	34	—	1,221	4,041	—
GreenPoint Financial / Thomas S Johnson	40	4,721	45	337	10,409	15,468	33,558	32.5
Guidant / Ronald W Dollens	329	1,668	175	584	—	2,252	19,022	15.3
Halliburton / David J Lesar	202	2,820	-15	1,333	—	4,153	12,272 ⁴	14.4
Harley-Davidson / Jeffrey L Bleustein	189	4,310	59	182	—	4,492	27,004	28.3
Harrah's Entertain / Gary W Loveman	47	4,290	NA	986	8,654	13,930 ⁸	NA	4.4
Hartford Finl Service / Ramani Ayer	105	2,834	33	99	4,655	7,587	40,011	7.9
HCA / Jack O Bovender Jr	351	1,028	26	1,002	—	2,029 ⁵	NA	5.7
Health Management / Joseph V Vumbacco	378	1,350	8	367	3	1,720	7,498 ⁴	4.6
Health Net / Jay M Gellert	397	1,455	112	72	—	1,527	4,044	4.3
HJ Heinz / William R Johnson	164	1,418	-16	384	3,397	5,199	27,441	9.5
Hershey Foods / Richard H Lenny	170	2,227	NA	2,931	—	5,158	NA	4.4
Hewlett-Packard / Carleton S Fiorina	116	3,931	293	3,338	—	7,268	39,046 ³	5.3
Hibernia / J Herbert Boydston	426	1,075	13	250	—	1,325	3,093 ⁴	8.2
Hilton Hotels / Stephen F Bollenbach	203	2,000	5	2,129	—	4,129	12,930	0.5
Home Depot / Robert L Nardelli	49	6,529	NA	7,261	—	13,789 ⁵	NA	—
Honeywell / David M Cote	99	3,375 ¹	NA	4,938	—	8,313	NA	2.2
DR Horton / Donald J Tomnitz	230	3,566	55	45	—	3,611	9,630 ³	0.5
Hudson City Bancorp / Ronald E Hermance Jr	78	1,399	102	2,401	6,345	10,144	NA	16.4
Humana / Michael B McCallister	373	1,313	-11	491	—	1,803	5,401 ³	2.8
Huntington Bancshs / Thomas E Hoaglin	428	1,280	NA	34	—	1,314	NA	2.0

Footnotes on page 124.

PIERCE BROSNAN'S CHOICE



SEAMASTER

Since 1948, the Omega Seamaster has been involved in many of man's most demanding adventures, earning itself a reputation for its precision, endurance and distinctive design. As a connoisseur of the finer things in life, Pierce Brosnan naturally relies on his Seamaster to accompany him wherever he dares to venture.


OMEGA

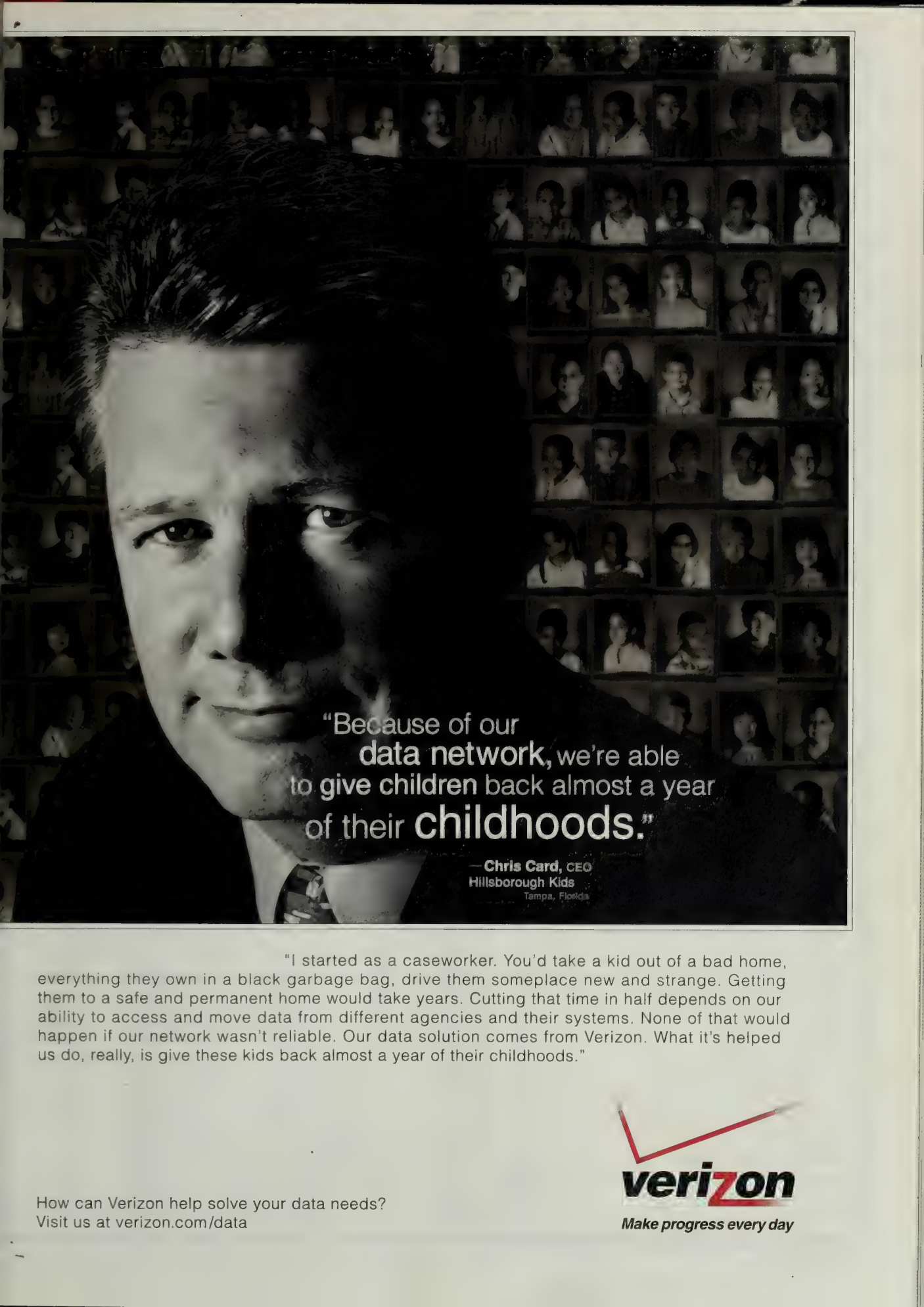
www.omegawatches.com

Executive Pay

What the Boss Makes

Company / Chief Executive	RANK AMONG 500 CEOs	SALARY & BONUS \$THOUS.	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	1-YEAR TOTAL	5-YEAR TOTAL	STOCK OWN VALUE \$MIL.
						\$THOUSANDS		
IKON Office Solutions / Matthew J Espe	447	1,133¹	NA	—	—	1,133	NA	—
Illinois Tool Works / W James Farrell	46	2,916	43	100	10,995	14,011	26,739	2.5
IMS Health / David M Thomas	335	1,313	-13	860	—	2,172	6,292 ⁴	4.1
Ingram Micro / Kent B Foster	282	2,858	153	28	—	2,886	5,678 ⁴	—
Intel / Craig R Barrett	25	1,680	2	135	17,570	19,386	190,222	55.4
Intergraph / James F Taylor Jr	476	601	100	8	—	609	1,209 ⁴	3.1
IBM / Samuel J Palmisano	125	5,933	45	1,062	—	6,995	NA	15.2
Intl Game Technology / G Thomas Baker	279	2,790	9	161	—	2,952	17,525 ⁴	10.7
International Paper / John T Dillon	93	2,940	70	2,115	3,688	8,743	26,069	13.9
Interpublic Group / David A Bell	440	1,000	NA	212	—	1,212⁶	NA	6.1
Intuit / Stephen M Bennett	153	3,950	47	1,793	—	5,743	11,262 ⁴	8.7
ITT Industries / Louis J Giuliano	55	2,772	26	1,489	8,297	12,558	17,279 ⁴	3.8
Jefferson-Pilot / David A Stonecipher	137	1,804	-31	1,444	3,055	6,303	17,738	8.3
John Hancock Finl/ David F D'Alessandro	79	2,100	-19	7,950	—	10,050	20,434 ⁴	27.0
Johnson & Johnson / William C Weldon	188	2,305	33	836	1,354	4,495	NA	10.8
Johnson Controls / John M Barth	267	2,116	NA	975	—	3,091⁶	NA	5.8
Jones Apparel Group / Peter Boneparth	315	2,500¹	NA	—	—	2,500	NA	—
KB Home / Bruce E Karatz	68	8,677	15	2,529	—	11,206	65,289	41.0
Kellogg / Carlos M Gutierrez	160	2,713	25	89	2,593	5,394	11,687	5.8
Kerr-McGee / Luke R Corbett	349	1,867	-12	149	43	2,059	8,349	8.2
KeyCorp / Henry L Meyer III	217	1,880	131	130	1,747	3,756	6,874 ⁴	8.4
KeySpan / Robert B Catell	432	1,222	-31	55	—	1,277	9,087	3.6
Kimberly-Clark / Thomas J Falk	342	1,142	NA	970	—	2,112⁶	NA	9.0
Kimco Realty / Milton Cooper	461	909	-59	1	51	961	5,604	243.0
Kinder Morgan / Richard D Kinder	495	—¹³	0	—	—	—	8 ³	1,079.8
King Pharmaceuticals / Jefferson J Gregory	479	526	NA	30	—	556^{5,6}	NA	21.7
KLA-Tencor / Kenneth L Schroeder	83	711	-53	1	8,970	9,682	31,227 ³	23.8
Kmart / Julian C Day	200	3,275¹	NA	929	—	4,204	NA	—
Knight Ridder / P Anthony Ridder	145	1,743	86	2,126	2,068	5,937	18,521	11.4
Kohl's / R Lawrence Montgomery	57	1,241	1	9	10,991	12,241	29,059	28.8
Kroger / Joseph A Pichler	206	1,705	-12	1,631	703	4,039⁵	25,358	16.6
L-3 Communications / Frank C Lanza	381	1,675	12	11	—	1,686	6,753	127.0
Laboratory Corp Amer/Thomas P Mac Mahon	187	2,289	-14	—	2,296	4,585	29,328	18.0
Lear / Robert E Rossiter	111	2,300	62	2,255	2,835	7,390	13,069 ⁴	5.9
Leggett & Platt / Felix E Wright	490	3⁸	0	139	—	142	6,940 ³	40.8
Lehman Bros Holdings / Richard S Fuld Jr	9	1,800	-62	6,827	21,125	29,752	219,904	268.9
Lennar / Stuart A Miller	20	9,357	47	510	10,851	20,718	41,095	17.2
Lexmark International / Paul J Curlander	76	2,096	123	130	7,940	10,167	22,541	28.9
Liberty Media / Robert R Bennett	433	1,000	0	271	—	1,271	5,509	37.6
Eli Lilly and Co / Sidney Taurel	486	—¹³	NM	204	—	204	69,385	43.1
Limited Brands / Leslie H Wexner	220	3,116	57	303	311	3,729⁵	18,574	1,029.1
Lincoln National / Jon A Boscia	176	2,785	-6	1,211	976	4,972	27,193	6.4
Linear Technology / Robert H Swanson Jr	384	1,428	-59	221	—	1,649	38,792	8.5
Liz Claiborne / Paul R Charron	113	3,124	46	1,153	3,065	7,341	25,549	9.8
Lockheed Martin / Vance D Coffman	15	4,154	-6	5,484	14,164	23,802	47,036	17.2
Loews / James S Tisch	343	2,059	59	48	—	2,107	8,339	114.8
Lowe's Cos / Robert L Tillman	21	2,851	75	488	17,348	20,687⁵	33,153	20.5
Lucent Technologies / Patricia F Russo	232	3,000¹	NA	583	—	3,583	NA	3.7
M&T Bank / Robert G Wilmers	455	998	2	13	—	1,011	41,721	391.9
Manpower / Jeffrey A Jorres	454	1,000	43	25	—	1,025	4,714 ³	2.3
Marathon Oil / Clarence P Cazalot Jr	320	1,883	-34	524	—	2,407	NA	2.4
Marriott Intl / J Willard Marriott Jr	326	2,222	192	116	—	2,338	19,964	762.7
Marsh & McLennan / Jeffrey W Greenberg	98	4,200	14	4,141	—	8,341	22,841 ³	17.2
Marshall & Ilsley / Dennis J Kuester	324	1,858	22	496	—	2,354	NA	10.6

Footnotes on page I24.



"Because of our
data network, we're able
to give children back almost a year
of their **childhoods.**"

—Chris Card, CEO
Hillsborough Kids
Tampa, Florida

"I started as a caseworker. You'd take a kid out of a bad home, everything they own in a black garbage bag, drive them someplace new and strange. Getting them to a safe and permanent home would take years. Cutting that time in half depends on our ability to access and move data from different agencies and their systems. None of that would happen if our network wasn't reliable. Our data solution comes from Verizon. What it's helped us do, really, is give these kids back almost a year of their childhoods."

How can Verizon help solve your data needs?
Visit us at verizon.com/data


verizon
Make progress every day

Executive Pay

What the Boss Makes

Company / Chief Executive	RANK AMONG 500 CEOs	SALARY & BONUS \$THOU	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	1-YEAR TOTAL	5-YEAR TOTAL	STOCK OWN VALUE \$MIL
					STHOUASANDS			
Masco / Richard A Manoogian	363	1,776	0	84	—	1,860 ⁵	63,216	118.2
Mattel / Robert A Eckert	41	3,750	83	11,383	—	15,133	27,139 ⁴	11.0
Maxim Integrated Prods / John F Gifford	33	300	-91	—	15,963	16,263	192,280	96.3
May Dept Stores / Eugene S Kahn	271	1,561	-2	1,493	—	3,054 ⁵	12,591 ³	11.0
Maytag / Ralph F Hake	379	1,600	NA	112	—	1,712	NA	1.1
MBIA / Joseph W Brown Jr	274	750	0	2,261	—	3,011	6,371 ³	26.1
MBNA / Charles M Cawley	11	6,000	NA	756	22,296	29,053 ⁶	NA	46.4
McDonald's / James R Cantalupo	418	1,400 ¹	NA	—	—	1,400	NA	4.6
McGraw-Hill Cos / Harold W McGraw III	51	2,187	34	1,800	9,565	13,551	36,445	26.0
McKesson / John H Hammergren	156	3,948	26	1,517	—	5,465	14,077 ³	9.3
MeadWestvaco / John A Luke Jr	407	1,421	62	48	—	1,470	6,407	3.2
MedImmune / David M Mott	350	2,033	25	—	—	2,033	33,866 ⁴	7.2
Medtronic / Arthur D Collins Jr	31	1,842	27	353	14,345	16,541	NA	37.3
Mellon Finl / Martin G McGuinn	316	2,100	1	353	—	2,453	34,963	23.1
Mercantile Bkshs / Edward J Kelly III	421	1,242	NA	135	—	1,377	NA	0.8
Merck / Raymond V Gilmartin	277	2,983	3	9	—	2,992	17,553	16.7
Merrill Lynch / E Stanley O'Neal	91	7,650	NA	1,135	—	8,785 ⁶	NA	15.9
MetLife / Robert H Benmosche	97	4,581	7	3,824	—	8,405	34,164 ³	2.7

Sharing the pain: In October 2001 Micron Technology's Steven Appleton voluntarily elected to forgo his salary until his company showed a profit.

MGIC Investment / Curt S Culver	226	1,009	-8	411	2,247	3,667	11,350 ³	3.4
MGM Mirage / J Terrence Lanni	61	4,058	75	903	6,951	11,912	21,783 ⁴	4.7
Micron Technology / Steven R Appleton	489	111 ¹⁸	NM	—	34	145	56,111	3.4
Microsoft / Steven A Ballmer	469	753	13	6	—	759	2,728 ³	11,816.6
Mirant / S Marce Fuller	194	1,440	38	2,905	—	4,345 ⁵	6,241 ⁴	1.4
Mohawk Industries / Jeffrey S Lorberbaum	409	1,334	24	121	—	1,455	3,515 ⁴	709.5
Monsanto / Frank V AtLee III ¹⁶	427	905 ¹	NA	419	—	1,324	NA	0.4
MONY Group / Michael I Roth	225	1,663	75	2,013	—	3,676	15,714	2.7
Moody's / John Rutherford Jr	244	2,117	1	961	308	3,385	9,495	4.5
JP Morgan Chase / William B Harrison Jr	89	9,080	-17	64	—	9,144	42,781 ³	32.2
Morgan Stanley / Philip J Purcell	14	6,388	-24	4,943	14,215	25,545	194,768	128.0
Motorola / Christopher B Galvin	246	2,775	118	22	569	3,366	15,440	63.0
Mylan Labs / Robert J Coury	424	1,350 ¹	NA	—	—	1,350	NA	—
National City / David A Daberkow	171	2,000	14	1,535	1,606	5,141	27,870	22.4
National Commerce Finl / Ernest C Roessler	216	2,133	26	928	732	3,793	14,369	8.1
Nationwide Financial / W G Jurgensen	446	899	224	258	—	1,158	2,652 ⁴	1.0
Navistar Intl / Daniel C Ustian	341	557	NA	569	992	2,118 ⁶	NA	1.6
New York Community / Joseph R Ficalora	386	700	14	50	864	1,614	8,020	56.5
New York Times / Russell T Lewis	155	2,490	171	295	2,685	5,469	15,988	4.2
Newell Rubbermaid / Joseph Galli Jr	334	2,068	NA	131	—	2,199	NA	1.0
Newmont Mining / Wayne W Murdy	323	1,276	-15	1,099	—	2,375	NA	1.7
Nextel Commun / Timothy M Donahue	280	2,197	82	754	—	2,951	54,279 ³	0.8
NIKE / Philip H Knight	252	2,728	39	573	—	3,301	14,223	4,854.0
NiSource / Gary L Neale	434	950	-49	317	—	1,267 ⁵	10,307	11.0
Norfolk Southern / David R Goode	185	1,855	-3	2,670	94	4,619	16,861	9.5
North Fork Bancorp / John Adam Kanas	77	4,360	19	292	5,496	10,148	35,091	57.8
Northeast Utilities / Michael G Morris	364	1,473	-17	382	—	1,855	10,668	1.2
Northern Trust / William A Osborn	181	1,950	-20	851	1,940	4,742	24,485	13.8
Northrop Grumman / Ronald D Sugar	161	2,440	NA	2,837	—	5,278 ⁶	NA	1.1
Northwest Airlines / Richard H Anderson	444	750	50	442	—	1,192	3,313 ⁴	2.0
Nucor / Daniel R DiMicco	466	816	93	—	17	834	2,271 ⁴	1.0
NVR / Dwight C Schar	2	3,000	36	4,012	87,292	94,303	140,741	345.5

Footnotes on page I24.

Novartis and Suzan drove her Cancer into remission in 35 days.



"One minute I was looking at death. The next, I was looking at my whole life in front of me."

— Suzan M.

Suzan had been fighting a losing battle against cancer for three long years. By January 2000, she was too sick to continue her studies. She was losing weight, her hair, and at times, her will to live. But today Suzan feels better than ever. And as a result of her experience, she's now pursuing a new degree, and a new career, in molecular biology. Novartis is proud to be the innovative force that's bringing new optimism and hope to patients and their families. No one can promise what the future holds for cancer patients, but today Suzan is winning the fight against her particular form of cancer, enjoying a good quality of life and realizing her dreams.

Think what's possible.



NOVARTIS

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Executive Pay

What the Boss Makes

Company / Chief Executive	RANK AMONG 500 CEOs	SALARY & BONUS \$THOUS.	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	1-YEAR TOTAL	5-YEAR TOTAL	STOCK OWN VALUE \$MIL.
					\$THOUSANDS			
Occidental Petroleum / Ray R Irani	45	4,290	10	8,312	1,697	14,299	46,858	25.8
Office Depot / Bruce Nelson	90	2,867	43	4,179	1,980	9,026	15,006 ⁴	1.1
Old Republic Intl / A C Zucaro	56	1,289	22	12	11,182	12,483	19,414	14.1
Omnicom Group / John D Wren	385	875 ¹⁹	NM	761	—	1,636	20,660	14.1
Oracle / Lawrence J Ellison	494	— ²⁰	NA	39	—	39	796,662	14,994
Owens Corning / David T Brown	322	2,361	NA	20	—	2,381	NA	—
Owens-Illinois / Joseph H Lemieux	281	1,418	16	1,501	—	2,919	10,474	9.1
Oxford Health Plans / Charles G Berg	182	1,310	NA	69	3,360	4,739 ⁶	NA	0.3
Paccar / Mark C Pigott	256	2,156	0	1,079	—	3,235	11,604	63.3
PacificCare Health / Howard G Phanstiel	275	2,607	107	398	—	3,006	5,165 ⁴	1.6
Park Place Entertain / Wallace R Barr	458	1,000 ¹	—	—	—	1,000	NA	0.0
Parker Hannifin / Donald E Washkewicz	404	1,172	18	313	—	1,485	NA	1.2
Paychex / B Thomas Golisano	471	744	-21	6	—	750	4,141	1,120.7
JC Penney / Allen Questrom	118	3,308	3	3,926	—	7,233	17,250 ⁴	1.2
PeopleSoft / Craig A Conway	42	3,325	11	—	11,774	15,099 ⁵	23,285 ⁴	11.3
Pepco Holdings / John M Derrick Jr	414	1,221	45	203	—	1,424	6,015	1.5
Pepsi Bottling Group / John T Cahill	411	1,403	-7	39	—	1,442	NA	11.2
PepsiCo / Steven S Reinemund	34	4,150	-7	1,001	11,037	16,188	NA	8.6
Pfizer / Henry A McKinnell	62	5,309	24	6,504	—	11,813	50,257 ⁴	42.2
PG&E / Robert D Glynn Jr	112	1,838	-12	5,546	—	7,383	15,327	3.7
Pharmacia / Fred Hassan	184	4,464	26	178	—	4,642	30,444	30.9
Phoenix Cos / Dona D Young	306	700	NA	1,866	—	2,566 ⁶	NA	—
Pinnacle West / William J Post	449	851	-43	254	—	1,105	6,635	2.1
Pitney Bowes / Michael J Critelli	264	2,128	7	983	—	3,110	20,095	10.8
Plum Creek Timber / Rick R Holley	392	1,521	15	39	—	1,559	14,240	8.5
PNC Financial Services / James E Rohr	266	1,750	-11	726	615	3,091	24,004 ³	17.9
Popular / Richard L Carrion	474	802	1	44	—	846	3,889	38.9
PPG Industries / Raymond W LeBoeuf	254	2,080	24	192	974	3,246	14,669	6.6
PPL / William F Hecht	360	1,682	40	248	—	1,930	10,837	4.1
Praxair / Dennis H Reilley	344	2,063	28	34	—	2,097	5,429 ⁴	3.0
Price Communications / Robert Price	450	1,100	-2	—	—	1,100	7,489	165.2
Principal Financial / J Barry Griswell	297	2,064	17	669	—	2,733	6,631 ⁴	1.0
Procter & Gamble / Alan G Lafley	169	1,370 ⁸	17	2,353	1,435	5,158	9,042 ⁴	12.4
Progress Energy / William Cavanaugh III	177	2,034	-13	2,828	—	4,862	15,309	23.1
Progressive / Glenn M Renwick	224	2,578	26	9	1,099	3,687	7,812 ⁴	9.7
ProLogis / K Dane Brooksher	223	1,475	-18	2,222	—	3,697	12,191	10.1
Protective Life / John D Johns	365	1,204	87	648	—	1,851	NA	3.8
Provident Finl Group / Robert L Hoverson	262	616	-44	47	2,485	3,149 ⁵	12,308 ³	3.7
Provident Financial / Joseph W Saunders	259	1,800	NA	1,408	—	3,208	NA	3.7
Prudential Financial / Arthur F Ryan	100	4,500	-10	3,659	—	8,159 ⁵	NA	0.9
Pub Svc Enterprise / E James Ferland	195	1,689	-13	2,639	—	4,328	12,723	11.0
Public Storage / Ronald L Havner Jr	488	158 ²	NA	5	—	162	NA	0.3
Pulte Homes / Mark J O'Brien	66	6,700	187	476	4,302	11,478	NA	4.4
Qualcomm / Irwin M Jacobs	4	1,750	14	361	61,440	63,551	71,497	659.5
Quest Diagnostics / Kenneth W Freeman	18	2,142	10	6,743	13,962	22,846	68,621	24.7
Qwest Communications / Richard C Notebaert	292	2,750 ¹	NA	—	—	2,750	NA	—
Radian Group / Frank P Filippis	186	1,697	8	1,284	1,625	4,606	20,696	8.3
RadioShack / Leonard H Roberts	430	1,100	0	202	—	1,302	32,756	2.8
Raytheon / Daniel P Burnham	104	3,065	22	4,888	—	7,953	21,243	9.2
Regions Financial / Carl E Jones Jr	359	1,622	46	168	148	1,938 ⁵	8,975	16.7
Reliant Resources / R Steve Letbetter ²⁸	213	2,723	-10	1,131	26	3,880 ⁵	9,745 ⁴	0.7
Rite Aid / Robert G Miller	95	1,740	-35	6,764	—	8,504	13,590 ⁴	4.4
RJ Reynolds Tobacco / Andrew J Schindler	209	1,292	-39	2,679	—	3,970	17,544	5.1
Rockwell Automation / Don H Davis Jr	375	1,670	86	79	—	1,749	11,704	1.9

Footnotes on page I24.



WASN'T LONG AGO THAT

CREATIVITY

IN THE SUPPLY CHAIN

MANAGEMENT

INDUSTRY

EANT MIXING TWO KINDS OF

LOWERS IN THE LOBBY VASE.

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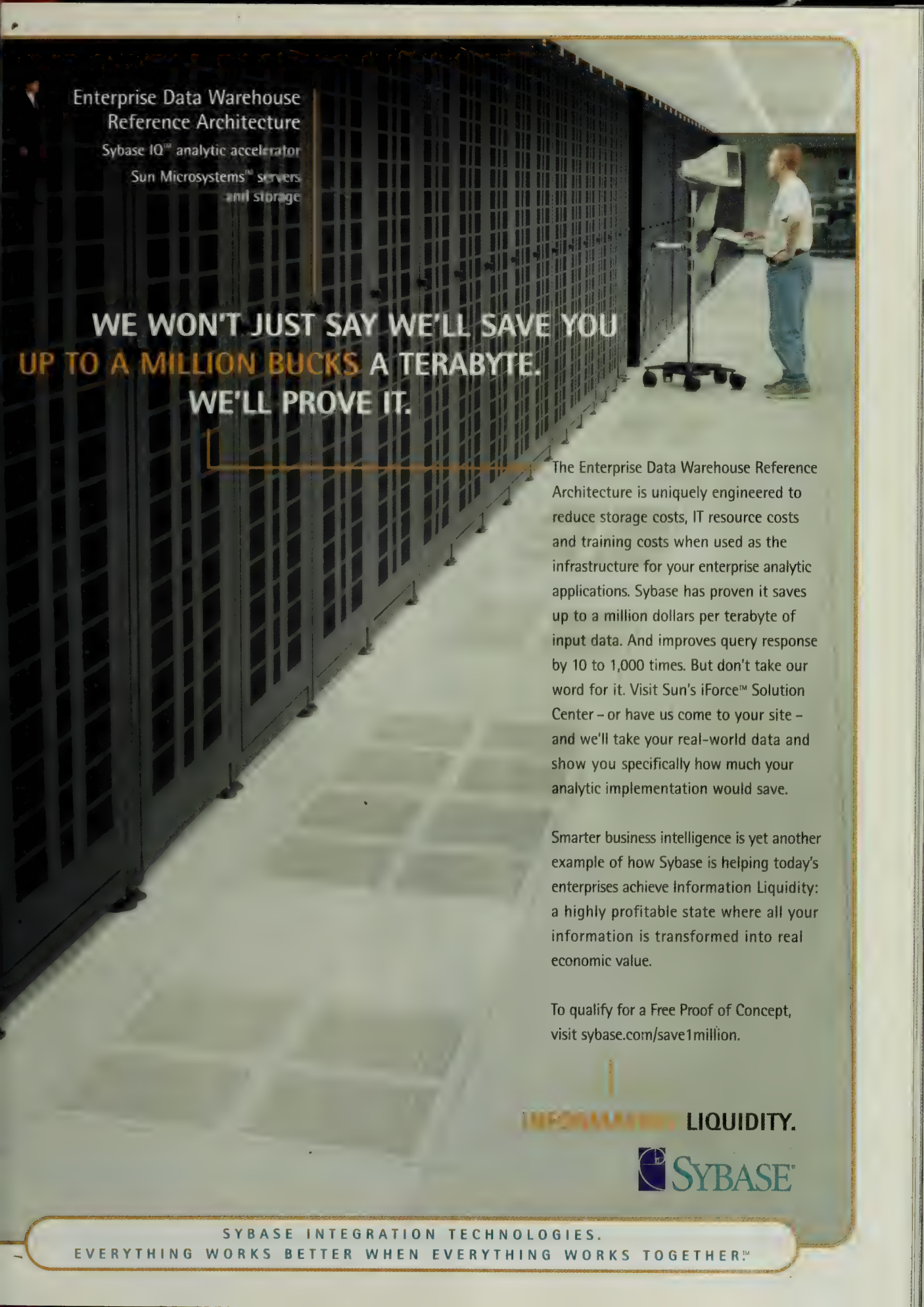
What the Boss Makes

Company / Chief Executive	RANK AMONG 500 CEOs	SALARY & BONUS \$THOU	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	2-YEAR TOTAL	5-YEAR TOTAL	STOCK OWN VALUE \$MIL
					\$THOUSANDS			
Rockwell Collins / Clayton M Jones	443	1,050	40	66	78	1,194	NA	0.4
Rohm and Haas / Raj L Gupta	395	1,099	31	433	15	1,547	6,715 ³	4.1
Safeco / Michael S McGavick	208	2,755	NA	1,220	—	3,975	NA	0.4
Safeway / Steven A Burd	58	1,258	-41	—	10,968	12,226	20,598	9.1
St Jude Medical / Terry L Shepherd	400	1,469	22	51	—	1,521	4,774 ³	2.3
St Paul Cos / Jay S Fishman	110	2,125	NA	5,296	—	7,421	NA	5.1
Sanmina-SCI / Jure Sola	477	550	1	56	—	606	7,500	3.4
Sara Lee / C Steven McMillan	92	3,478	51	1,791	3,491	8,759	18,881 ⁴	6.6
SBC Communications / Edward E Whitacre Jr	60	6,100	4	5,858	—	11,958	142,182	11.7
Schering-Plough / Richard Jay Kogan ²¹	17	1,430	0	22,080	—	23,510	121,533	8.2
Charles Schwab / David S Pottruck	453	883	36	160	—	1,044	213,083	46.0
EW Scripps / Kenneth W Lowe	81	1,826	128	7,689	431	9,946	11,827 ⁴	20.7
Sears, Roebuck / Alan J Lacy	283	2,798	78	73	—	2,871	7,996 ⁴	3.1
Sempra Energy / Stephen L Baum	231	2,678	-8	927	—	3,605	10,085 ⁴	6.2
7-Eleven / James W Keyes	437	1,212	98	12	—	1,225	2,994 ³	1.1
Sherwin-Williams / Christopher M Connor	346	1,898	36	189	—	2,087	6,813 ³	4.1
Simon Property Group / David Simon	325	1,400	75	941	—	2,341	7,731	108.3
SLM / Albert L Lord	54	2,250	-25	1,140	9,375	12,765	60,008	77.5
Smithfield Foods / Joseph W Luter III	114	6,826	-16	460	—	7,286	38,187	100.5
Smurfit-Stone / Patrick J Moore	340	2,100	37	24	—	2,124	NA	1.0
Solectron / Michael R Cannon	—	NA	—	—	—	—	NA	3.1
Southern Co / H Allen Franklin	147	2,914	7	1,741	1,211	5,865	15,530 ⁴	1.1
SouthTrust / Wallace D Malone Jr	146	3,547	16	2,328	—	5,875	25,535	121.2
Southwest Airlines / James F Parker	463	492	-9	44	345	881	NA	4.6
Sovereign Bancorp / Jay S Sidhu	389	1,187	-16	8	393	1,588	11,271	38.6
Sprint FON / Gary D Forsee	292	2,750 ^{1,22}	NA	—	—	2,750	NA	—

Not exactly the minimum wage: Based on a 40-hour workweek, the average boss earned \$1,079 per hour in total salary and bonus.

Sprint PCS / Gary D Forsee	292	2,750 ^{1,22}	NA	—	—	2,750	NA	0.1
SPX / John B Blystone	124	5,595	29	1,452	—	7,046	50,110	31.9
Staples / Ronald L Sargent	73	1,887	122	103	8,469	10,459	13,259 ⁴	10.3
Starbucks / Orin C Smith	8	2,451	14	—	36,322	38,773	55,812 ⁴	0.6
Starwood Hotels / Barry S Sternlicht	250	2,182	-38	1,150	—	3,332	22,347	27.3
State Street / David A Spina	134	2,800	5	3,694	—	6,494	19,594 ⁴	33.3
Stryker / John W Brown	120	1,800	9	187	5,146	7,133	18,411	607.8
Sun Microsystems / Scott G McNealy	13	588	488	64	25,237	25,889	104,832	187.3
SunGard Data Systems / Cristobal Conde	333	1,790	NA	17	424	2,231 ⁵	NA	9.7
Sunoco / John G Drosdick	366	1,145	-48	705	—	1,850	7,239 ⁴	3.6
SunTrust Banks / L Phillip Humann	419	950	-43	344	92	1,386	9,818	31.9
Supervalu / Jeffrey Noddle	298	1,739	NA	268	724	2,731	NA	2.2
Symantec / John W Thompson	32	1,181	-20	2,691	12,623	16,495	22,288 ⁴	9.6
Synovus Finl / James H Blanchard	261	1,135	-12	269	1,795	3,199	10,142	25.0
Sysco / Richard J Schnieders	302	1,836	NA	852	—	2,688 ⁶	NA	6.9
Target / Robert J Ulrich	26	6,023	18	947	12,216	19,186	66,672	33.6
TCF Financial / William A Cooper	67	2,100	0	9,248	—	11,348	19,299	77.7
Tech Data / Steven A Raymund	371	1,800	-33	20	—	1,820 ⁵	9,529	44.3
TECO Energy / Robert D Fagan	286	1,151	-6	881	805	2,837	5,999 ³	2.0
Temple-Inland / Kenneth M Jastrow II	448	1,073	-5	50	—	1,123	4,964 ³	3.6
Tenet Healthcare / Jeffrey C Barnakow	1	5,383	19	250	111,050	116,683	129,210	26.3
Texas Instruments / Thomas J Engibous	399	1,340	60	183	—	1,523	54,286	2.3
Textron / Lewis B Campbell	119	2,600	4	4,048	569	7,218	26,397	16.2
Thermo Electron / Marijn E Dekkers	429	983	NA	348	—	1,311 ⁶	NA	1.0
3M / W James McNerney Jr	139	4,711	27	1,521	—	6,232	NA	15.0
TJX Cos / Edmond J English	173	1,381	21	2,088	1,601	5,070 ⁵	8,555 ³	2.1

Footnotes on page 124.



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What the Boss Makes

Company / Chief Executive	RANK AMONG 500 CEOs	CASH SALARY \$THOUS	1-YEAR CHANGE %	OTHER COMPENSATION	STOCK GAINS	1-YEAR TOTAL	5-YEAR TOTAL	STOCK OWN VALUE \$MIL
					\$THOUSANDS			
Torchmark / C B Hudson	467	800 ⁸	0	7	—	807	18,064	45.3
Toys 'R' Us / John H Eyer Jr	115	1,950	-33	5,329	—	7,279 ⁵	10,338 ⁴	0.3
Travelers Property Cas / Robert I Lipp	367	1,800	NA	48	—	1,848	NA	12.3
Tribune / Dennis J FitzSimons	221	1,598	NA	222	1,885	3,705 ⁶	NA	19.2
TXU / Erle A Nye	106	2,988	108	4,586	—	7,574	14,678	9.2
Tyson Foods / John H Tyson	166	4,480	62	689	—	5,169	10,319 ³	7.1
UAL / Glenn F Tilton	96	3,846 ¹	NA	4,589	—	8,434	NA	—
Union Pacific / Richard K Davidson	272	1,188 ⁹	8	170	1,670	3,027	11,450	23.6
Union Planters / Jackson W Moore	130	1,860	48	1,149	3,694	6,703	13,116 ⁴	29.9
UnionBanCal / Norimichi Kanari	480	516	-6	40	—	555	NA	—
Unisys / Lawrence A Weinbach	273	2,430	84	583	—	3,013	22,100	2.1
United Parcel Service / Michael L Eskew	356	1,123	20	16	814	1,953	NA	13.4
US Bancorp / Jerry A Grundhofer	101	2,500	156	82	5,531	8,113	31,667	30.0
US Steel / Thomas J Usher	318	2,343	-47	88	—	2,431	18,255	1.8
United Technologies / George David	72	3,600	20	1,031	5,850	10,481	80,663	33.3
UnitedHealth Group / William W McGuire	87	7,171	30	2,286	—	9,457	148,701	15.3
Unocal / Charles R Williamson	401	1,361	-26	121	28	1,510	4,555 ⁴	5.9
UnumProvident / Thomas R Watjen ¹⁶	237	1,400	NA	23	2,053	3,476 ^{5,6}	NA	3.3
US Airways Group / David N Siegel	383	1,500 ¹	NA	163	—	1,663	NA	—
USA Interactive / Barry Diller	5	500	-77	254	52,314	53,068 ⁵	95,169 ³	52.8
Valero Energy / William E Greehey	94	2,300	-63	5,200	1,142	8,642	42,773	53.3
Verizon Commun / Ivan G Seidenberg	86	4,200	7	5,314	—	9,514	52,245	3.8
VF / Mackey J McDonald	288	2,445	64	323	—	2,768	16,068	4.8
Viacom / Sumner M Redstone	22	20,130	32	161	—	20,291	53,140 ³	7,795.4
Visteon / Peter J Pestillo	348	1,633	63	427	—	2,060	5,947 ⁴	5.8
Vornado Realty / Steven Roth	263	1,550	24	1,581	—	3,131 ⁵	6,936	508.8
Wachovia / G Kennedy Thompson	144	4,750	32	1,215	—	5,965	17,845 ³	12.8
Wal-Mart Stores / H Lee Scott Jr	64	2,908	6	1,285	7,420	11,613 ⁵	22,188 ⁴	30.2
Walgreen / David W Bernauer	313	1,253	34	532	741	2,527	NA	5.3
Washington Mutual / Kerry K Killinger	82	4,009	15	2,792	3,064	9,864	35,022	26.5
Washington Post / Donald E Graham	483	400	0	11	—	411	3,869	1,261.5
Waste Management / A Maurice Myers	204	1,844	37	2,281	—	4,125	12,805 ³	4.0
Webster Financial / James C Smith	303	1,176	-9	1,417	—	2,594	8,127	8.9
WellChoice / Michael A Stocker	337	1,707	NA	452	—	2,159 ⁵	NA	—
WellPoint Health / Leonard D Schaeffer	19	6,937	102	974	14,481	22,392	53,794	31.0
Wells Fargo / Richard M Kovacevich	80	7,995	135	1,995	—	9,990	71,652	64.8
Weyerhaeuser / Steven R Rogel	388	1,600	-21	8	—	1,608	11,154	—
Whirlpool / David R Whitwam	178	2,479	3	675	1,696	4,850	19,774	7.0
Williams Cos / Steven J Malcolm	456	871	-24	138	—	1,009	NA	1.3
Winn-Dixie Stores / Allen R Rowland	370	1,452	-24	374	—	1,826	4,470 ⁴	3.8
Wisconsin Energy / Richard A Abdo	380	1,616	27	79	—	1,694	6,297	1.8
Wm Wrigley Jr / William Wrigley Jr	372	1,789	18	30	—	1,819	6,891 ³	3,629.3
Wyeth / Robert A Essner	129	1,986	-29	1,147	3,641	6,774	18,631 ⁴	4.2
Xcel Energy / Wayne H Brunetti	278	1,849	15	953	159	2,961 ⁵	5,912 ⁴	1.6
Xerox / Anne M Mulcahy	295	2,250	NA	489	—	2,739 ^{5,6}	NA	2.6
Xilinx / Willem P Roelands	415	562	-39	15	841	1,418	14,290	1.6
Yahoo / Terry S Semel	482	310 ¹	NA	129	—	439	NA	24.3
Yum Brands / David C Novak	201	3,621	62	570	—	4,191	15,587 ³	2.1
Zimmer Holdings / J Raymond Elliott	265	1,632	32	1,474	—	3,106	6,104 ⁴	3.0
Zions Bancorp / Harris H Simmons	441	550	-39	233	423	1,207	7,968	111.9

Rank is based on total compensation for most recent full year. Market value of CEO stock is based on Apr. 4 stock price and includes all classes of common. Compensation percent change is based on combined salary and bonus. ¹Annualized salary and/or bonus. ²Paid to date. ³Four-year total. ⁴Three-year total. ⁵Prior-year data. ⁶New CEO; compensation may be for another executive office. ⁷Less than \$100,000. ⁸Received option or restricted stock in lieu of portion of salary and/or bonus. ⁹Includes shares indirectly held. ¹⁰Company is searching for a new CEO; Michael P. Angelini is the head of the Office of the Chairman. ¹¹Includes long-term incentive payouts made by SICD, a private holding company. ¹²At his request, CEO received \$1 in salary. ¹³At his request, CEO received \$1 of base salary and no bonus. ¹⁴CEO voluntarily requested to forgo his bonus for this year. ¹⁵Figures are for the ten months ended June 30, 2001. ¹⁶Interim CEO. ¹⁷Compensation paid by parent company News Corp. Ltd. ¹⁸Represents compensation earned for the one month ended Oct. 28, 2001. CEO voluntarily elected to forgo his salary until company achieves positive net income. ¹⁹Elected to forgo bonus to insure other midlevel employees received substantial incentive compensation. ²⁰CEO received no salary or bonus. ²¹CEO will retire at the company's annual meeting on Apr. 23, 2003; a successor has yet to be named. ²²Salary and bonus are paid by Sprint Corp. for services rendered to FON and PCS. ²³On Apr. 2, 2003, Steven H. Temares was named chief executive officer replacing Co-CEOs Warren Eisenberg and Leonard Feinstein. ²⁴Office jointly held with Bond R. Isaacson. ²⁵Office jointly held with Herbert M. Sandler. ²⁶Resigned Apr. 13, 2003. NA: Not available or not applicable. NM: Not meaningful. Source: FT Interactive Data via FactSet Research Systems.

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JOHN V. HARKER HAS A problem with people like Scott Bonds. Harker, 67, is the chief executive of InFocus, the world's leading seller of digital projectors. Like a lot of Harker's customers, Scott Bonds bought his InFocus projector to show PowerPoint slides to clients. Late one Friday night Bonds, a software consultant in Berkeley, Calif., discovered it also made a nifty movie projector. He hooked the machine up to his PC, slipped in a DVD and watched sci-fi thriller *Aliens* on a 120-inch screen with his co-workers. "People were falling off their chairs!" says Bonds.

Harker's grand plan is to get the couch potato lurking inside every road warrior to buy a second projector for the home, with sharper resolution, richer

Show Time

First John Harker has to convince couch potatoes they need fancy digital projectors. Then he has to keep the Japanese from crushing him.

BY ERIKA BROWN

John Harker
needs to
perform great
feats of
technology to
stay in the lead.

color, higher contrast—and a higher price tag—than the office projector. Bonds took the bait. In January he bought a \$5,000 digital projector and an 84-inch wall-mounted screen. Now he invites buddies over for “Movie Night at Scott’s” and to play videogames with life-size terrorists wielding life-size machine guns.

Only one problem: Bonds bought his new home projector from NEC of Japan.

Such is the state of affairs for Wilsonville, Ore.-based InFocus. In the last few years 30 electronics outfits,

including Epson, Sony and Panasonic, have flooded the home entertainment market with projectors. At the same time, technology-buying budgets in InFocus’ key markets—corporate, government and education—have been annihilated. Yet new low-price competitors such as Gateway and Dell keep coming.

Prices are falling like rain. IDC expects worldwide projector unit sales to more than double by 2006 to 3.5 million, but industry revenue should rise just 17%, to \$7 billion. Harker has been cutting prices furiously

just to stay in place with his 16% share of the market. Analysts expect Harker will slash prices by another 25% this year. If so, to eke out a paltry 4% revenue gain, to \$680 million, Harker will have to boost unit sales by 40%. “I would rather give up profitability than give up share,” he says defiantly.

Give up profitability he has. The \$52 million in net income for 2000 became a net loss of \$64 million for 2002. To fight back, Harker is moving production abroad. By June all InFocus projectors will be made by outsourcers such as Flextronics in

Pocket Projector

Since 1996 digital projectors have gotten smaller, cheaper and cooler. The \$3,500 ScreenPlay I10 (below) has a resolution of 848x480 pixels, about the same as plasma, but not as high as high-definition TV, at 1280x720 pixels. For true HDTV, buy the ScreenPlay 7200 for \$10,000. You’ll still need to dim the lights.

1 INTEGRATED CIRCUIT, PIXELWORKS

The brains of the projector. Controls the fan, light, keypad, on-screen menu system.

2 LAMP

Beams light onto the color wheel. InFocus once used halogen, but now uses high-pressure mercury lamps for truer color. Brightness improved from 150 lumens in 1992 to 1,000 today.

3 COLOR WHEEL

A glass wheel with six slices of color—red, green and blue. At 7,200 rotations per second, each spin flashes a colored light onto the DLP chip. To get purple, a mirror tilts toward the wheel when red and blue go by. Mirrors control brightness to create lavender. Together they can produce 16.7 million colors.

4 MICRODISPLAY, TEXAS INSTRUMENTS

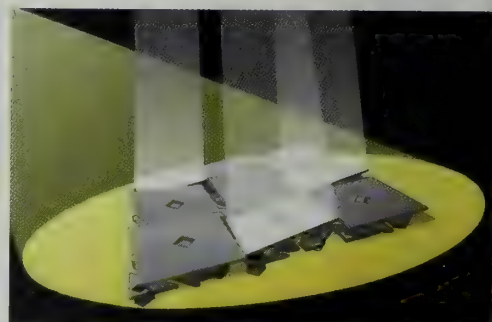
Tiny mirrors tilt forward and back thousands of times per second to deflect lamp light toward, or away from, the projection lens.

5 VIDEO CHIP, FAROUDJA LABORATORIES

Analyzes each pixel for absent lines, then guesses how to fill them in and smoothes out the jagged edges. Converts analog images into digital.

6 CONNECTORS

Users can plug in DVD players, Xboxes, camcorders and cable TV. A Wi-Fi card could someday wirelessly connect the projector to devices in different rooms.



Mirror, Mirror

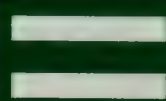
Texas Instruments’ DLP is an \$800 marvel. One chip holds as many as 2 million mirrors, each smaller than the width of a strand of hair, corresponding to a pixel in a projected image. Current technology allows for 1,280 columns by 720 rows of pixels (in 1995 it was 640x480). The more pixels, the crisper the image.

An electrode instructs a corresponding dark metal oxide hinge to tilt each mirror toward or away from the light several thousand times per second, creating 1,024 shades of gray.

TI has more than 400 patents on its DLP technology but scrappy companies think they can do it better. One venture capital-backed Silicon Valley company vows to introduce its own mirrored chip. It could be ready for market within two years—at a tenth the cost of DLP. Regardless of whether it delivers on its promises, the price of digital projectors and HDTVs will continue to fall. —E.B.



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—Jimmy Brown, Firefighter

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Malaysia and Funai in China, up from 70% last year. "My Asian competitors' main advantage is price," says Harker, "and I want to take that away from them."

Harker would rather compete on nifty technology and ease of use than on price. The company was the first to make a projector using Texas Instruments' Digital Light Processor in 1996. DLP helped shrink the machines, reduce cost and improve picture quality. InFocus tweaked its projectors by adding video-enhancing chips, a richer palette of colors and plugs for DVD players and game boxes.

In October 2001 InFocus offered its first home entertainment projector, the ScreenPlay 110, at \$5,000. Last year the company introduced a souped-up version of the ScreenPlay, with higher resolution and other video perks, for \$10,000. The next ScreenPlay is expected to reach shelves by the end of this year. On the lineup for 2005 is what Harker calls a "boom box," combining a projector, audio system and DVD player in one.

Harker hopes to be the first to break the \$1,000 mark in the home, as soon as next year. If he can do it, he expects home entertainment to shoot up from 5% to maybe 25% of the company's revenue, reaching \$700 million as soon as 2005. Analysts are less optimistic. Home Theater Research Group says U.S. industry revenue from front projectors in the home might reach \$500 million by 2007, up from \$186 million last year.

Home projectors are a tough sell. The only way Harker can get his into the hands of the masses is to put them in retail stores, whose brightly lit environment is unfriendly for projectors. Late last year Harker teamed up with TI to design a \$2,000 in-store kiosk for Best Buy and others with 65-inch screens, Bose audio systems and side blinders to better display their wares. Harker hopes to install a few thousand kiosks worldwide by next year.

Even if Harker can make his projectors cheaper and get them into retail stores, he'll still have to contend with powerhouses like Sony. "I'll never beat Sony in name recognition in the home," concedes Harker, "but if I keep the improvements coming, I can keep the competition running."

F

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Shelf Smarts

Some obscure math developed during the Cold War made Circuit City \$300 million in extra revenue last year.

BY BRENDAN COFFEY

WHEN YOU WALK INTO ANY ONE OF the 626 Circuit City locations in the U.S., everything from the clothes the floorwalkers wear to how long you can get 0% financing has been studied and tweaked by statisticians relying on obscure mathematics developed during the Cold War to make atomic bombs.

The math is multivariable testing, or MVT, a way of testing dozens of variables simultaneously in real-life situations. Statistician Charles Holland first applied MVT to figure out why a certain atomic bomb part had a crippling 85% rejection rate in the late 1960s.

His privately held consulting firm, QualPro, in Knoxville, Tenn., has long sold MVT tricks to manufacturers to detect assembly line problems. But using it to get a

handle on the finicky shopper is a radical new step in retail, a business mostly run on gut instinct. In the past three years Holland has signed up chains such as Circuit City, Toys "R" Us, Staples and Lowe's. QualPro charges \$500,000 to \$3 million to run a six-week test of 20 ideas.

Circuit City, based in Henrico County, Va., has had jarring success with its statistical help. Two six-week studies in late 2000 and early 2001 led to changes that contributed an estimated \$300 million in sales for the 12 months ended September 2002, or 3% of the \$10 billion in revenue. "What did we learn about ourselves? That our gut stinks," says Circuit City senior vice president Jeffrey Wells.

That realization may be a lifesaver. In the past five years Circuit City has fallen

behind Best Buy. Facing pressure from Home Depot and Lowe's, the company dropped appliances in 2001, shaving off 15% of its sales. Its stock has fallen to \$5 from \$60 over the past three years. A much-needed store refurbishment cut earnings by 60% to \$30 million last year.

Circuit City turned to MVT at the behest of Chief Executive W. Alan McCollough, who had seen it work in his days at textile giant Milliken & Co. Frustrated in mid-2000 with the failure of other ideas to increase sales, McCollough gathered 3,000 ideas from store-level employees and whittled them to 15 for QualPro to test.

Circuit City randomly selected 16 stores for the experiment. The changes were either/or, and not all ideas were implemented in every store. Commissions were either flat or varied, based on product; employees wore either uniforms or street clothes; 0% financing lasted for 12 months or 24 months.

Each of the 16 stores tried a different combination of the 15 ideas. In this way a lot of interactions can be tested at once (maybe the commissions only motivate uniformed sales clerks?). Data on sales and net margins at each store were tallied weekly. After the best-performing recipe was identified, Circuit City and QualPro fine-tuned it by eliminating those changes that had no impact when compared with the status quo.

The results stumped everyone. Executive favorites, like adding more salespeople to help customers, had no effect on revenues. Flat commissions worked better than the chain's product-based commissions, a tradition for 48 years. In retrospect that change seems an obvious one: The pitchman can focus on what the shopper wants instead of pushing a high-commission flat-screen TV.

Circuit City later decided to drop commissions altogether. After the retailer instituted MVT-validated concepts in stores, it saw an immediate 3% comparable-store sales rise. It tested the changes three separate times to make sure the benefits were real.

"Vice presidents and janitors are equally likely to have an idea that has a positive impact on a problem," says Charles Holland. Math is the great equalizer.



Analyze this: Circuit City unleashed statisticians on its stores in a bid to boost sales.



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by Stephen Manes

Megapixel Madness

YOU WOULD HAVE TO BE VERY SERIOUS ABOUT PHOTOGRAPHY to buy Kodak's long-awaited DCS Pro 14N single-lens-reflex digital camera. It does have a point-and-shoot mode that might be handy for quick snapshots, but it is far too big to fit in a pocket, weighs 2 pounds without battery, memory card or lens and costs \$4,995—lensless.

But this camera is a fascinating harbinger of things to come. When you see the pictures the Pro 14N produces, thanks to its nearly 14 million pixels, you suddenly realize how much detail most digital pictures lack. A distant picket fence becomes a series of vertical slats instead of a white blur. A car parked on a faraway street is clearly a BMW instead of some generic vehicle. A bobbing buoy appears as a slim vertical line instead of vanishing into the water.

The 14N is designed to work much like its film counterparts but with digital flexibility. Crafted from some Nikon parts and others exclusive to Kodak,

A new camera demonstrates that when images are made of pixels, more is more.



Enlargement from 14-megapixel Kodak Pro SLR (top). Bottom, from 4-megapixel consumer camera.

it accepts the same lenses as Nikon's own SLRs. And as with Canon's \$7,999 11-megapixel EOS-1DS, the sensor is exactly the size of a 35mm film image instead of the smaller dimensions earlier digital SLRs used. That lets lenses behave exactly the same way as on film cameras, with wide-angle lenses retaining their wideness.

In my tests of rapid-fire shooting, the Pro 14N could take seven uncompressed or five compressed shots at full resolution every half-second or so before stop-



ping to compute a while. But the Pro 14N camera can engage in self-improvement, thanks to firmware downloaded from the Web to a memory card. For example, an upcoming upgrade should add two more shots in the compressed mode. I did run into annoyances. My first set of shots included a big black blob, thanks to a dust particle I had to clear from the imager. There is no way to put the processor to sleep automatically, so the battery runs down quickly if you forget to turn off the camera. The edges of the viewfinder are hard to see with glasses, and using it with your right eye leaves nose smudges on the LCD screen. Automatic file numbering didn't work as expected, and the manual lacks adequate detail on the camera's seemingly endless panoply of features. The computer software that lets you manipulate images is slow and clunky.

And another design feature is already a point of argument among camerascienti. Most digital cameras use something called an antialiasing filter in front of the imager to add a tiny amount of blur. That minimizes certain digital visual problems but slightly reduces sharpness. Kodak omits this filter, resulting in sharper pictures that include glitches like moiré patterns on shingled rooftops and color fringes at the edges of branches.

Which is better? Depends on your taste, your subject and your talents at image editing. Prints from the Kodak looked excellent at 10-by-15 inches and quite good at four times that size, but on close inspection, glitches were definitely there.

This camera is aimed primarily at professional photographers who want fine pictures fast. The rest of us can expect that eventually digital cameras as sharp as this one will be priced like today's film models—say, Nikon's F5 at about \$2,000 or its N80 at about \$500. For now the difference will buy a lot of rolls of film while you wait for the inevitable price drop—or the next step up in the megapixel race.

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Stephen Manes (steve@cranky.com) was cohost of Digital Duo and has been covering technology for two decades. Visit his home page at www.forbes.com/manes.

MICHIGAN

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PART X in a SERIES

Focus on Venture Capital: Michigan Incentives Drive Seed-Stage Investing

by Vickery Eckhoff

Thinking big is a Michigan tradition that is transforming the state into an emerging technology leader in life sciences, alternative energy and advanced manufacturing, as well as the automotive industries. But thinking small — focusing on the needs of seed-stage companies now in the state's numerous universities, business incubators and SmartZones — is an equally important part of the state's plans. Growing the state's venture capital (VC) industry is a critical part of Michigan's mission.

To sustain the growth of Michigan's technology start-ups and commercialization activities, the Michigan Economic Development Corporation (MEDC) has worked to expand both the number of venture capital firms and the capital they have to invest. Today, Michigan has 19 venture capital firms and \$2.4 billion in capital under management, an increase of approximately 35% annually since 1996.

Last year, the MEDC played a lead role in creating four new venture capital funds that will stimulate millions

in seed-stage financing — the stage at which funding is hardest to acquire. Through a little more than \$5 million in funding from the MEDC, these new funds have pledged to raise in excess of \$85 million in early seed-stage capital.

One of the venture capital companies beginning a new fund is Arboretum Ventures. As of March 31, the \$25 million fund had its first close. "We'll then be ready to look hard at opportunities and make investments in some companies, possibly out of Michigan's Life Sciences Corridor (MLSC)," says partner and cofounder Jan Garfinkle. "The MEDC has been just tremendous for filling the pipeline with new life sciences technologies that can be commercialized."

Rubicon Genomics is typical of the kind of start-up benefited by such efforts. Rubicon Genomics has so far raised \$7.2 million in funding, including investments from Michigan angel and VC investors. Now in early commercial rollout of its OmniPlex™ technology, the company has "clients and customers and is getting paid to do small activities. We have 16 people on board right now," Rubicon Genomic President and CEO Fred Beyerlein

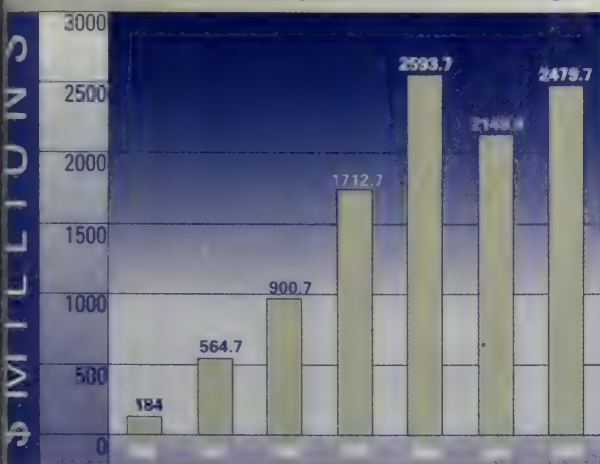


states. "I hope to have double that by next year."

Michigan isn't resting on its laurels when it comes to growing the state's venture capital industry. Michigan Governor Jennifer Granholm and state Treasury officials are considering using a portion of the state's pension funds to encourage more venture capital investments in the state. The state also is taking part in a venture capital summit this summer to brainstorm with industry leaders on ways to bring more VC funding into Michigan.

New State Treasurer Jay Rising sees the importance of venture capital growth in the state: "Michigan is home to many outstanding high-tech start-up companies. By emphasizing both return and a prioritization of our venture capital commitments, we plan to grow and support successful new companies that will also call Michigan home." ■

Capital Under Management in Michigan



Above:

Rubicon Genomics' work amplifying, archiving and analyzing DNA has been made possible by MLSC and venture capital funding.

Left:

Since 1996, Michigan's capital under management has grown to \$2.4 billion.

For more information, contact the

Michigan Economic Development

Corporation at 800-946-6829

or visit www.michigan.org.



Custom car: Toyota's Scion will have 38 groovy accessories that drivers can order over the Web. Mechanics customize the cars at U.S. ports.

Marketing

For the Discriminating Body-Piercer

A cheap car with audacious accessories may pay off for Toyota years hence—if the buyer trades up to a Lexus.

BY JONATHAN FAHEY

TOYOTA MOTOR IS DESPERATE TO ATTRACT YOUNG drivers. But that would be hard to tell by looking at the company's marketing plan for Scion, a line of subcompact cars it will introduce in June. There are few sponsored debut events. Ads in mainstream media are a no-no. There's no traditional product brochure. And good luck trying to find one of these cartoonish cars: For the first nine months after the launch, only California dealerships will offer the \$13,000 vehicles. Scion won't hit mid-western states until 2004. The rollout is so low-key that even James Farley, Scion brand chief at Toyota, confides: "I'm worried whether the customer will discover us."

The right customer, that is. Toyota is a hit with baby boomers. Its trusty Camry is the nation's bestselling car, its Lexus a must-have luxury sedan for those who can afford it. But Toyota is very mindful that its existing stable of consumers—average age, 48—isn't getting any younger. Only 106,000 cars among the 1.5 million new vehicles the Japanese carmaker sold in the U.S. last year were bought by drivers 25 and under, says J.D. Power & Associates.

Toyota hopes Scion changes that. The funny-looking vehicles come as a four-door hatchback (the xA) or a boxy van (the xB). Kids won't spot Scions in the usual marketing spots, but they may discover one parked in front of a boutique, such as True, an apparel

shop in San Francisco, or DMC Records in Los Angeles. Curious hipsters can take the car for a spin. Then they will be handed a digital camera so they can snap pictures and send them to friends from a sidewalk Internet kiosk.

The concept: Create brand lust in youngsters by way of word of mouth (or Internet) among trendsetters. Let prospects believe they have stumbled across the car on their own. Even if they aren't fooled, Toyota hopes they will be entertained. In addition to hosting lavish parties for enthusiastic car customizers, the carmaker is releasing CDs of tunes compiled by and cobranded with *Urb*, an underground-music magazine. Consumers are urged to submit their own tapes. The maker of the best compilation will be tapped to mix Scion's fall CD. And instead of a product brochure, Toyota is distributing a slick magazine called *Scion, Sight, Sound, Motion*, filled with more information about art, music and fashion than about the car. "For Toyota, this is uncharted territory," says Christopher Cedergren, a partner with Iceology, a consumer research firm.

So are the extras. Young folks like to customize stuff. Toyota will offer a strange assortment of accessories such as red or gray steering wheels (a \$279 option). There are also illuminated cup holders, colored door-lock covers and spoilers. "It's much hipper than anything else they have, and it's loaded for \$13,000," raves Sandy M. Lirag, a 42-year-old Temecula, Calif. customizer who plans to buy an xB. The snazzy add-ons may make up for the fact that the Scion's 108hp engine seems more appropriate for a lawnmower.

Toyota is upending its distribution system for Scion. Most

Scions coming to the U.S. from Toyota City in Japan will be housed at various U.S. ports, where they will be customized to owners' specifications by teams of 20 mechanics. Buyers order the cars and select their doodads over the Internet, either from home or in a Toyota dealership. They get the car within five days. That beats ordering a Ford and waiting two months to get your personal choice of seat fabric.

This isn't the first time Toyota has tried to seduce a younger crowd. The company tried to strike a youthful pose in 1999 with the \$10,000 Echo. The frumpy subcompact was a bust. It probably didn't help that penny-pinching middle-aged drivers bought it as an inexpensive way to get Toyota reliability.

Company execs are jazzed that 80% of the people who have requested information about Scion from its Web site are under 35. (There are 10,000 of these Windows shoppers so far.) But keeping the market so narrow will be a tough challenge: "Toyota's really out on a limb with this thing," says Rebecca Lindland, analyst at Global Insight, a forecasting firm. "Will buyers have to have a certain number of body piercings?"

Toyota doesn't expect a financial windfall from Scion: Only 850,000 new cars were sold to drivers under 24 in the U.S. last year. Toyota hopes many of the 100,000 Scions it plans to sell will be snapped up by youngsters. The real payoff will come later. If the carmaker succeeds in getting young drivers' attention now, they may consider Toyota when they are buying an estimated 4 million new cars—expensive ones—in 2010.

F



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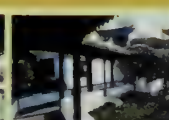
European-style Club in Shimao Riviera Garden



Chinese Gardens in Shimao Riviera Garden



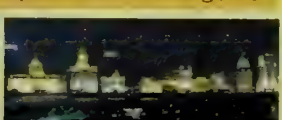
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Way Out There

ELON MUSK made a fortune from the Internet. Now he wants to deliver payloads into space—and save mankind by colonizing Mars.

BY SETH LUBOVE

LET'S GET THIS STRAIGHT: ELON MUSK IS NOT A LUNATIC. "I'm one of the least flaky guys you'll ever meet," he insists. Flaky guys generally haven't pocketed \$200 million by age 31 as Musk has, thanks to two Internet successes—Zip2, sold to Compaq in 1999 for \$307 million in cash, and PayPal, bought last October by Ebay for \$1.5 billion in stock.

There's nothing kooky about his latest venture, which is backed by what he describes as "tens of millions" of his own money. Assuming he runs the gantlet of government approvals, his Space Exploration Technologies, or SpaceX for short, will be ready to launch low-cost rockets by the end of the year. The plan for now is to ferry light satellites and other smallish payloads weighing up to half a ton for \$6 million per flight, significantly less than the \$20 million for Orbital Sciences' workhorse Pegasus rockets.

It's when he talks about the future of SpaceX that you start to hear the *Star Trek* theme song ringing in your head. Musk is more than a little worried that the human race will come to an end. "There's always the risk of some catastrophe such as what happened to the dinosaurs or global nuclear war," he says darkly, sipping on a diet Coke in his El Segundo, Calif. office, across the street from a tire repair shop. "The notion of planetary redundancy is defensible as the most powerful thing to ensure long-term survival."

Redundancy, as in making the planet Mars habitable for humanity—and reachable through rockets Musk dreams about building. "Mars has the possibility of being terraformed," he says, referring to the theory that by releasing greenhouse gases on the planet, you can trap heat and create a liveable environment. "We could change the climate of Mars and make it quite Earth-like." Never mind that NASA's Jet Propulsion Laboratory recently declared that radiation on the red planet could cause "significant long-term health risks" to anyone who ever visited the place. Like his fellow Mars Society members (some 6,000-odd strong), Musk

is a believer—and a big benefactor (he won't disclose how much). His money has helped underwrite ventures such as the Musk Mars Desert Observatory telescope located within a simulated Mars environment in southern Utah, where Martian acolytes try out waste-incinerating toilets and homemade space helmets reportedly fashioned out of trash can lids.

"We're not attempting to find out what life is like on Mars by running around with garbage can lids on our heads," snaps Robert Zubrin, the testy founder of the Mars Society. "We're attempting to find out what field tactics would work while operating under simulated Mars conditions."

None of this is found in Musk's pitch to potential SpaceX customers. Advertising the design of the company's rockets recently in El Segundo before military brass and assorted space bureaucrats, Musk, self-taught in aeronautics, deftly parried questions about "pintle injector geometry" (referring to the rocket engine's nozzle) and "Merlin turbo-pump assemblies" (fuel pumps).

No denying there's need for low-cost launch alternatives to the sky-high offerings of Boeing and Lockheed Martin. James Benson, founder and chairman of SpaceDev, a \$3.4 million (2000 sales) maker of "affordable" microsatellites, rockets and other space paraphernalia, says he is "trying to bring the microcomputer way of thinking to a space industry that is bogged down in a main frame, bigger-is-better way of thinking." Alas, progress has been slow, and SpaceDev has struggled. The company, which trades on Nasdaq's Bulletin Board, narrowed its loss last year to \$376,000 from \$1.9 million—but only by shaving \$3.2 million in costs.

Born in South Africa, Musk migrated to Canada as a kid when his mom and dad divorced; later he got undergraduate degrees in business and physics from the University of Pennsylvania. In 1991 he began graduate work in physics at Stanford but lasted all of two days before getting bitten by the Internet bug and dropping out. His bright idea was to write software that would help news



papers move listings and other content to the Internet. Financing in those days was tough, especially for someone with neither tech nor media experience. He convinced Mohr, Davidow Ventures to invest \$3.6 million in his fledgling Zip2 in exchange for majority control.

"Our beginnings were quite humble," he recalls of times when he showered at the neighborhood YMCA. "Jack in the Box was a splurge." The scrimping paid off when Compaq bought the company four years later to combine with AltaVista, the search service it then owned. "The irony was they didn't want to give us stock, because they thought it was undervalued," he smiles. Musk got \$22 million for his 7% share.

His next venture proved little easier. Musk made things harder for himself by getting into a business that he knew practically nothing about: an Internet-based, one-stop financial-services firm called X.com that would eventually sell mutual funds along with banking, mortgages and loans via affiliated banks. Skeptics—including this magazine (*Feb. 21, 2000*)—predicted hard times for Musk.

As a financial supermarket, X.com was a flop. But one of its benefits, payments from one account to another via e-mail, proved brilliant. "A trivial feature," Musk says. It happened that another company, Confinity, had the same technology, which it called PayPal. After designing their product to allow Palm Pilots and other wireless devices to "beam" money elsewhere, the service became a favorite on the Ebay Internet auction site. Musk acquired Confinity for an undisclosed amount in March 2000, renamed the entire company PayPal and instituted successful marketing schemes such as giving new users \$10 if they signed on for an account.

Payback time. Even though Musk's company went public in the teeth of the tech wreck, PayPal's shares soared 55% on the first day of trading in February 2002.

Ebay bought the company eight months later, paying an 80% premium to the initial offering price. As PayPal's largest individual shareholder, with 6.5 million shares, Musk walked away with Ebay stock that would now be worth \$220 million if he hadn't sold any (he's held on to most of the stake).

By then Musk already had his head in the clouds. After talking with friends about

He ordered up a study led by fellow Mars maven Michael Griffin, the former chief technical officer of Orbital Sciences, and now president of In-Q-Tel, a CIA-funded venture capital outfit that invests in spying technologies. "It was clear there was a need for a reliable, low-cost method of getting to space," says Musk, who is single-handedly covering the initial \$20 million to \$40 million in costs.

Musk dismisses comparisons with the many failed private rocket ventures that have preceded his, most notably Beal Aerospace. Like Musk, Andrew Beal was a rich space enthusiast who made his fortune in another business, in this case Texas banking. With plans to spend \$200 million of his own, Beal set out to build small, reusable rockets to deliver satellites to low-earth orbits—much like SpaceX. But the venture came crashing to earth in October 2000, following Beal's complaints that NASA was subsidizing his competition.

Can't happen here, insists Musk. His rivals failed, he says, because they didn't have the technical talent or sufficient capital. With engineers from TRW and Boeing, Musk figures he's got the technology nailed. Ebay stock willing, he has enough dough. He even claims to have two firm (unnamed) clients lined up.

Beyond implicit customers lies insatiable curiosity—and ultimate survival. "Long term, if we are going to go up there and understand what the universe is all about, it will entail leaving the planet Earth," says Musk, on his way to Colorado Springs where he's speaking at the National Space Symposium, the preeminent space trade show. "From the perspective of ensuring the survival of humanity, the most powerful thing we could do is establish a second, self-sustaining civilization outside of Earth, and the only place that's really feasible is Mars."

Feasible? It sounds utterly loony. But then digital money sounded pretty loony a decade ago.

Flights of Fancy

Elon Musk's Mars plans may seem out of this world, but at least he's using his own money. Not so at NASA's Institute for Advanced Concepts. With a budget of \$3 million, the obscure agency sponsors dozens of research projects straight out of science fiction. Projects are funded for up to \$75,000 or \$500,000, depending on what phase they're in—first or second. A space sampler.

PROJECT: Space Elevator **PHASE:** II **OBJECTIVE:** A device to transport explorers to a space station orbiting 775 miles above Earth from a space dock 615 miles below.

PROJECT: Self-Sustaining Mars Colonies **PHASE:** I **OBJECTIVE:** Two years before human "colonists" arrive, small ALPH (Atomic Liberation of Propellant and Habitat) robots land on the planet to produce propellants, air, insulation, food and lodging.

PROJECT: Astrotels **PHASE:** II **OBJECTIVE:** Series of "hotels" located between Earth and Mars. Catching "taxi" between the hotels, future space travelers could make short hops between the planets.

PROJECT: Programmable Plants **PHASE:** I **OBJECTIVE:** Plants with embedded, remotely activated receivers would provide the air, water, food, drugs, chemical feedstock and other material needed to live on other planets.

the glacial progress of manned space exploration, Musk commissioned a feasibility study about sending a sort of biosphere to Mars, consisting of plant life that would germinate from a nutrient gel and take root. Though Musk could easily afford the estimated \$20 million price tag for the life-support system, the Delta rocket built by Boeing to get it there—45 million miles away—would cost another \$50 million.

"That was unpalatable," he says. So Musk went to Russia to buy himself a cheap rocket. He even negotiated a deal at one point—he refuses to disclose price or the characters he dealt with—but backed out when the risks of dealing with squirrely Russians began to outweigh any anticipated discounts.

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Protect Your Assets

With trial lawyers running riot, insurance may not be enough.

BY ASHLEA EBELING



WILLIAM DIEHL, A 45-year-old cancer doctor in Morristown, N.J., delivered bad news to the five other surgeons in his

practice last fall: Their malpractice insurer was dropping them after Dec. 31. After much scrambling, the docs patched together a safety net of policies with three insurers. Diehl's annual bill tripled to \$62,000—for less coverage. "The choice was to take a less comprehensive policy or go out of business," Diehl says. Now he's looking beyond insurance, into the once-esoteric area of asset-protection planning.

These days doctors, accountants, corporate officers and business and property owners all face increased risk from out-of-control jury awards and zealous regulators. Asset-protection planning isn't a replacement for insurance. But it is a backstop—a way to shield some of your wealth should you be hit with a big judgment that isn't fully covered.

The time to tuck assets behind shields is when you are not being sued. Wait until a creditor comes calling and there is a greater risk a transfer will be invalidated as fraudulent.

Integrate asset protection into your tax and estate planning. Says Jay D. Adkisson, a Newport Beach, Calif. planner: "If you stand up and admit that you've done asset protection, you create

additional leverage for creditors to come after you." There's a side benefit to thinking holistically. Some tax planning—for example, using a family limited partnership to reduce the taxable value of gifts—holds up best when it's done for nontax reasons, too.

Finally, asset protection, like a portfolio, should be diversified. Don't rely on one method. Here are some to consider.

Transfer assets to a spouse

Your creditors generally can't reach assets held by your spouse, or assets held by you and your spouse as "tenants by the entirety." In contrast, in some states they can come after your half of a house or bank account held as "tenants with right of survivorship."

Make sure that if the spouse without potential creditor problems dies first, his or her assets go to the survivor in a "spendthrift" trust that limits distributions. A Q-Tip (qualified terminable interest property) trust, which works well for estate tax purposes, too, can be drafted as a spendthrift trust, notes Joel Bronstein, a St. Petersburg, Fla. tax lawyer. That way the survivor's creditors can't get at the trust.

Don't overdo the transfer. For tax reasons it's usually desirable for each spouse to be worth at least the amount of the estate tax exemption (\$1 million this year, rising to \$3.5 million by 2009).

Create an LLC

Limited liability companies (and their close cousins, family limited partnerships) offer some protection from creditors, with the amount varying by state. Say you own a rental building. You put the property in an LLC owned jointly with a business partner and ideally managed by someone else. A tenant slips on the stairs and wins a big judgment. In that case your liability is limited to the assets in that LLC. Conversely, an LLC with valuable assets could protect you from creditors coming after you personally (say, over a car accident you caused). The creditors could seize distributions from the LLC, but if the manager doesn't make any distributions, the creditors are out of luck.

Cut other people in on the LLC. If you are the only shareholder, a creditor could claim that the company is your alter ego and thus puncture the shield it provides.

Fund college accounts

Some college savings plans are protected. The fastest growing is a Section 529 savings plan, in which you set aside money for kids' college expenses and make the earnings tax-deferred or tax-exempt. So far 19 states have given their savings plans at least some protection from creditors even if a debtor parent is the owner, says 529 expert Joseph Hurley, who runs www.savingforcollege.com.

It gets tricky. Name the kid as owner of the account and you get the maximum protection from your creditors. But you also take the risk that when the kid turns 18 or 21, he or she will squander it on something other than a college education. Make yourself the owner (the usual practice) and you have more control but less ability to shield the assets. The answer might be to make your spouse the owner.

Read carefully. New York protects the whole account if it is owned by the child, but only \$10,000 per account if it's owned by someone else. And if you buy an out-of-state plan, this protection may not help you.

Plan for a bankruptcy exemption

Depending on your state, exempt assets can include a home, life insurance, an annuity and tax-sheltered retirement accounts. Florida is ridiculously forgiving. In a 2001 Florida Supreme Court case a Florida surgeon facing a malpractice award was able to protect \$3.8 million in assets, including annuity contracts with a cash surrender value of \$356,000, even though he wasn't collecting the annuities yet. In another 2001 case the Court ruled that a Tennessee businessman who had purchased a Florida home for \$650,000 in cash just 11 days after a \$15 million court judgment was entered against him could keep the house. Before you rush to buy a Florida home, however, consider the bankruptcy bill now moving through Congress. In some cases, it would cap a state's

homestead exemption at \$125,000 in equity and impose a \$1 million cap on the amount a state could protect in an IRA. Significantly, it wouldn't interfere with existing state protections for non-IRA retirement plans—such as 401(k)s.

If you have rolled retirement money from an employer into an IRA, consider moving it back into a protected plan, suggests Robert Keebler, a Green Bay, Wis. CPA. Say you do a little consulting on the side. You can set up a one-person 401(k) or the like and roll the IRA into it. Just before filing for bankruptcy a California businessman who'd been hit with a \$4.5 million arbitration award moved his retirement savings from his IRA—exempt in California only to the extent necessary to support him in retirement—to a totally exempt profit-sharing pension plan. In February the Ninth Circuit Court of Appeals blessed the dodge. Still, it's always best to make such moves before you're sued.

► By the Numbers

Bankruptcy Shields

The amount of wealth you can protect in bankruptcy depends on where you live and how you hold your assets.

7 states including Florida and Texas allow debtors to keep unlimited equity in their homes.

19 states give Section 529 college savings plans special protection from creditors.

\$1 million is the most a reform bill would allow debtors to protect in an Individual Retirement Account.¹

¹Does not apply to amounts rolled over from most pension plans.

Take a charitable approach

If you have highly appreciated assets and an interest in charity and live in a state that protects annuities in bankruptcy, a charitable remainder annuity trust can provide both tax benefits and asset protection. You put assets into the trust and take back an annual fixed annuity payout based on the initial value of the trust; the charity gets what's left when you die. By law your annuity payments must be set so that the charity is projected to end up with at least 10% of the trust's value—but you'll get an income tax deduction for that portion. And you can sell assets in the trust without immediately paying capital gains taxes.

The assets in the trust are protected from creditors because you no longer own them. And even the annuity payments to

you may be protected during bankruptcy by some states. Moreover, once you emerge from bankruptcy, you'll still have your annuity. Warning: It's unclear whether charitable remainder unitrusts, where payments vary based on the value of the assets in the trust each year, have as much protection.

Use an Alaska trust

You fund the trust and are its beneficiary. Since 1997 Alaska, Delaware, Rhode Island and Nevada have passed laws that protect assets from creditors once they've been in one of these trusts for four to six years. An open question is whether they work for out-of-staters. In any event, get an independent trustee, or a court could simply order you, as trustee, to fork over the money.

Go offshore

An offshore trust is expensive to set up (expect to pay a reputable lawyer \$25,000), and, as with an Alaska trust, you typically can't retain control over the assets. Also: A U.S. judge might jail you for refusing to extract money from the trust. But just the fact that an asset is offshore is enough to deter some creditors from pursuing it, says Howard Rosen, a Coral Gables, Fla. lawyer. **F**

OVERSEAS FOCUS

Not for Worrywarts

The North Korean menace and other problems have spooked investors in Seoul. If you want to bet that South Korea will prosper nonetheless, you can buy good stocks very cheaply.

BY ROBYN MEREDITH AND SUSAN KITCHENS

INVESTORS WILLING TO SWALLOW A stiff cocktail of risk can find some intriguing opportunities in South Korea. The market is down 20% since December, with the result that solid growth companies like LG Home Shopping and SK Telecom can be had for less than ten times estimated 2003 earnings.

Go in with your eyes open. Thirty miles north of Seoul's stock exchange are North Korea's troops, ready to march on the command of a dictator who seems bent on having his own nukes. Since South Korea imports all its oil, the war in Iraq pounded the economy as energy prices jumped. Further complicating the picture: an entrenched *chaebol* system and a recently elected president who is a political and foreign-policy neophyte.

This mix served as a strong brake on an economy that grew an estimated 6.3% last year. If tensions in North Korea worsen—the Iraq war already gave Pyongyang the jitters—growth could slow to 4% this year, says the Bank of Korea. That's a big slowdown in five months.

Korean companies are feeling the pain. At Asiana Airlines, passenger miles are down 3% in the past year. But the declining revenue is nothing compared with skyrocketing costs. Jet fuel costs are up nearly 35%.

Retail is also down. "People are really worried about what's happening in Iraq and North Korea," says Sung Joo Kim, president of Sung Joo International, the Korean franchisee of Marks & Spencer. And, he adds, "We are in the middle of chaos" because of the unexpected presidential victory of the crusading human rights lawyer, Roh Moo Hyun.

Even bustling Seoul is moving a little more slowly these days. "All the hotels are

empty," says Edward J. Kelleher, Bank of America's chief executive for Korea. He and other Seoul residents are betting that the chance of a military confrontation is slim, but if it happened, things "could fall apart quickly," he says.

Investors outside Asia have their attention trained on Iraq. But Asians worry about closer-to-home Korea, where plenty of foreigners have investments. South Koreans are usually blasé about saber rattling in the North, but now, says Michael Reed, regional head of Franklin Templeton Investment Trust Management, "there's a sudden domestic realization that the North Korean event is a bigger-than-normal issue."

Morgan Stanley says investors shouldn't panic. "It was wrong to assume Korea was

going to the moon one year ago," says economist Andy Xie. "It's equally wrong to assume that Korea is going to hell now."

Xie says the risk from North Korea should always be priced into investments there, but investors tend to forget this when Pyongyang's rhetoric is dormant. Unless the tension

escalates, the political risk is already priced into the benchmark KOSPI index which hit an 18-month low of 515 in early March. Something good may even come out of the upcoming negotiations between the U.S. and North Korea.

Korea's minister of finance and economy, Jin Pyo Kim, on a recent trip to New York in which he aimed to calm foreign investors, said, "A lot of people are looking at Korea with uncertainty, but our foundation is strong."

Merrill Lynch has suggested a few stocks that it thinks will benefit if North Korea limits itself to fiery rhetoric. "The best time to buy stocks in Korea is when everything looks dismal," says a recent Merrill report.

Its portfolio includes the huge electronics makers LG Electronics and Samsung Electronics, as well as Samsung SDI, which makes electronic components including cathode ray tubes and rechargeable batteries for cell phones. Someday technology will hit bottom, and companies like these are poised to do as well as Intel or Cisco Systems.

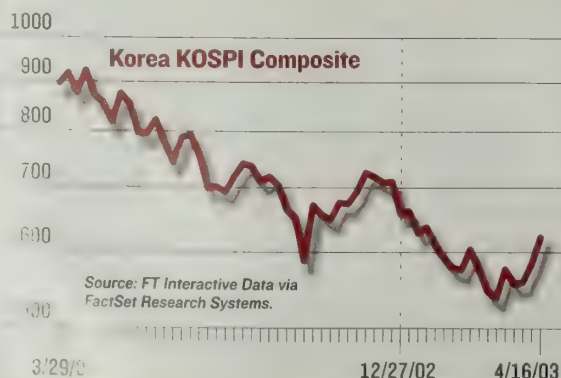
Plays on a domestic recovery also include LG Home Shopping (an Internet, television and catalog retailer) and Kookmin Bank. The latter has been buying up Korean stocks and credit card assets, providing a leveraged bet on a market recovery.

Get 'Em While They're Cold

South Korean companies that could benefit from peace.

Company	Price	P/E	Yield	Sales (\$ bil)
Kookmin Bank ¹	\$28.95	16	2.4%	\$7.2
LG Electronics	36.39	10	2.4	23.1
LG Home Shopping	60.50	9	4.1	1.5
Samsung Electronics	255.04	15	1.9	35.3
Samsung SDI	67.49	7	3.0	4.3

¹American Depositary Receipts. Prices as of Apr. 15. Source: Worldscope via FactSet Research Systems.



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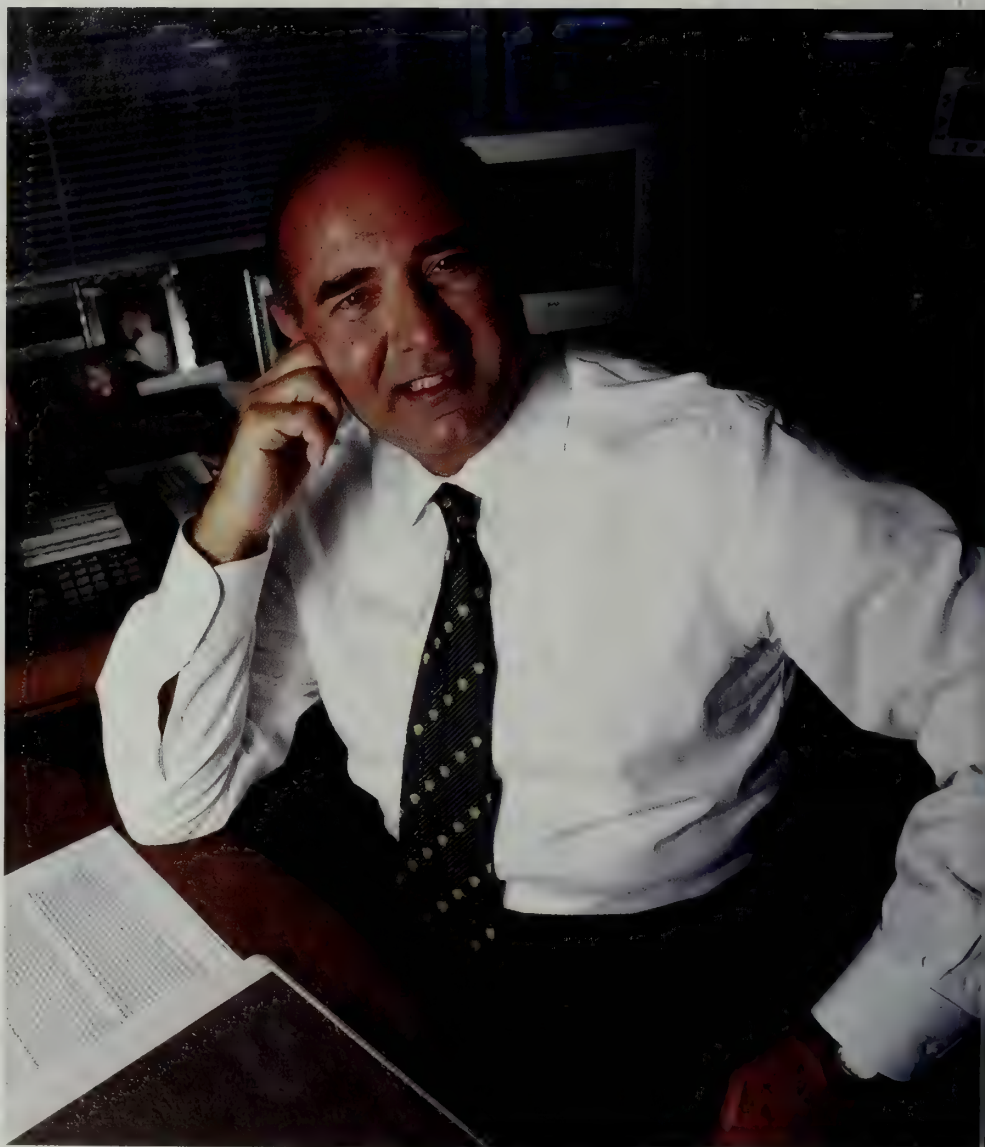
Three years of a down market haven't shaken the faith of superbull **David Elias** in the American economy. Here are some blue chips that ought to do extremely well in a rebound.

BY ANDREW T. GILLIES

WE'RE GOING TO HIT Dow 40,000 by 2016," says money manager David Elias without blinking. It is not the first time he's said it, either. Dow 40,000 was the theme and in the titles of his two books published in 1999 and 2000. Reviewers said they were a signal of a stock market about to go pop.

This time Elias' call is all the more gutsy, flying in the face of greatly diminished expectations for stocks. The prediction is also more of a reach statistically. To get to 40,000 by December 2016 from where we are now, the Dow would have to sustain an annualized price gain of 13%. Starting from December 1999's 11,400 level, it would have had to trot along at only 7.7%. To get a sense of how wildly bullish 13% is, note that over the past 100 years the index has climbed at a 5% rate.

And now we are contending with terrorism, volatile oil prices, high levels of corporate, government and personal debt, and a sluggish world economy. Mere mud on the hooves of history to Elias: "Over the last century we've had depression, recessions, the World Wars, all sorts of conflicts and tragedies," he says, "and yet look at the long-term trend of the stock market. It's up."



Elias' Top 5

ExxonMobil

General Electric

Medtronic

DuPont

Microsoft

Elias has made an outlandish-sounding contrarian call before—and seen it come true. In 1989 much of Wall Street remained haunted by the crash of 1987 and stood in awe of an ascendant Japan Inc. As the Nikkei index roared toward 40,000, Elias, in *Physician's Asse*

essays magazine, declared Japanese companies overvalued and predicted a resurgence of U.S. stocks. He steered his clients toward dumping or shunning expensive Japanese equities in favor of

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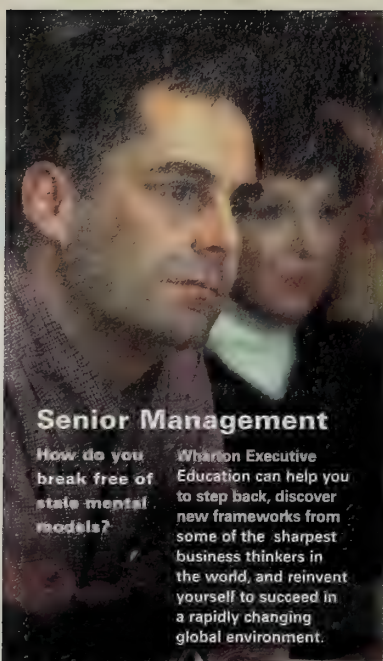
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Money & Investing

cheaper U.S. ones. It looked like a foolhardy call, until the long bull run started at the end of 1990 that took the Dow from 2300 to 10,000 in nine years.

The 57-year-old cut his teeth as a stockbroker with Hornblower & Weeks, Hemphill, Noyes during equities' dog days of 1973 to 1974. Seven years later he quit the investment arm of Marine Midland Bank (now subsumed into HSBC) to strike out on his own. Elias Asset Management, in Williamsville, N.Y. (near Buffalo) now manages \$500 million for individuals and institutions. In 2000 Elias sold the firm to Syracuse-based Community Bank Systems, but he still runs the show.

Since then things haven't been pretty. As of the end of last year Elias' holdings had declined 19%, versus a three-year drop of 27% for the Dow industrials. But, as in 1989, Elias rebuts the pessimists with a spirited defense of America's economic fundamentals, entrepreneurs and technology. "Don't ever discount the American spirit," he says.

America's demographic mix, unique among developed economies, is another reason Elias is a superbull. Immigration keeps the population young, growing and vigorous, he says, while baby boomers turning senior will boost demand for pharmaceuticals, medical devices and new services.

Elias divides his investment work into two sorts of stocks. The first group he labels "face of the earth" companies—those with long histories and operation across the globe. One such he favors is Walt Disney. He thinks its shares will rebound from a price 60% below its five-year high as a cash-draining five-year \$5 billion drive to spruce up theme park and resorts concludes and a recovering economy boosts attendance. He also sees untapped investment value in Disney's price-to-sales ratio of 1.4. That's well below a ten-year average of 2.1 and looks good relative to the competition. Viacom sells at 2.7. Those numbers let Elias see aside Disney's steep multiple, 35 times trailing earnings.

Elias calls his second group of stock "fountainhead" companies. They make up in market position and superior technology what they lack in long histories. Examples: Microsoft, Intel and Cisco Systems.

Our table features conservative growth stocks that Elias deems promising, plus five companies snared in the following screen: share price down at least 25% from a 52-week high, market capitalization above \$10 billion and positive earnings estimates for 2003. We also excluded companies whose debt exceeds share holders' equity.

Rebound Plays

These stocks turn up among the holdings at Elias' firm or on our screen of blue-chip opportunities.

Company	PRICE		Price/ sales	2003 P/E (est)	Market value (\$mil)
	recent	change from 52-week high			
American Express	\$34.62	-23%	1.9	15	\$45,498
JP Morgan Chase ¹	25.59	-34	2.0	12	51,230
ChevronTexaco ¹	63.56	-30	0.7	12	67,902
Cisco Systems	13.21	-24	5.1	23	93,948
Walt Disney	17.84	-29	1.4	28	36,436
General Dynamics ¹	53.97	-51	0.8	11	10,630
Home Depot	25.90	-49	1.0	15	60,237
Intel	16.76	-47	4.2	29	109,677
Kimberly-Clark ¹	46.52	-30	1.8	14	23,760
Target ¹	30.88	-33	0.6	15	28,095
Transocean	20.54	-48	2.5	23	6,568

Prices as of Apr. 11. ¹Forbes pick. Sources: FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems; Elias' top holdings (see box) from LionShares via FactSet Research Systems.

*With proper
planning,
fairway time
can further
business goals.*

Imagine attending a corporate conference at a balmy resort, and eagerly planning an afternoon of golf on the wide-open fairways. Instead, a glance at the schedule shows that the sponsoring company has set only three hours aside for the game, which would allow time for just a frustrating nine holes. "It's going to be clear to everyone that the person who planned that meeting sure wasn't a golfer," says Pete Huestis, president and COO of Adams Business Media. "Worse, they're going to say things like, 'This company doesn't have a clue what's going on; they can't even get golf right.' What could have been a great

opportunity for networking instead turns into a public-relations disaster."

By Curtis Rist

GOLF and the EXECUTIVE MEETING

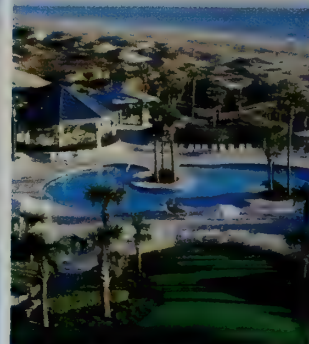


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Planning a major corporate event or executive meeting involves a tango of details, from choosing a location, arranging the agenda, and making sure that people stay productive and entertained. Then, golf has an important position on the schedule, not just for recreation but as a way of bringing people together and developing professional relationships. "A golf course offers probably the finest business arena there is," says Dennis Noonan, director of sales at Kingsmill Resort in Williamsburg, Virginia. Kingsmill Resort operates three championship 18-hole golf courses with a par-3, nine-hole golf course, making it Virginia's largest golf resort, with 63 holes on site. When you're in a golf cart

with someone, it's amazing how business relationships grow. On a typical business/sales phone call, you might get somewhere around 10 minutes, yet here you are spending an hour to four-and-a-half hours with them in relaxed

conversation. You'd never get that kind of opportunity anywhere else." The golf course does not necessarily have to be located directly at the resort hotel where the business meeting is held. Instead, planners, such as those at Virginia's Hampton Convention and Visitors Bureau, can make arrangements with various golf courses in the vicinity. Hampton's choice golf courses include lakes, sand bunkers and spacious putting greens designed to be a formidable obstacle challenge for all skill levels," says Rosemary Gelshenen, the Hampton B's director of sales. "Golf is a great way to spend time with customers and clients, and offers a lot more rewards than just going to lunch."

"A golf course offers probably the finest business arena there is."

— Dennis Noonan, Director of Sales, Kingsmill Resort

Creating these sorts of experiences requires careful planning, which goes beyond simply allowing enough time for playing 18 holes. It's not enough, say the experts, to assume that just because a golf course is available that it will

be put to the best use. In addition to the logistics of finding courses and scheduling tee times, the varied levels of playing ability among meeting attendees have to be taken into account. Rather than sending groups out in lonely foursomes, some thought has to be given to structuring a golfing event to be inclusive of everyone, particularly if dozens of players are involved. "Making golf work toward your business goals requires a coordinated strategy," says Noonan of Kingsmill Resort. "Fortunately, it's a strategy that meeting planners and golf professionals can help you devise for fool-proof results and a strong return on investment."

For the Love of Golf

When planning a meeting, golf is certainly a popular focal point. "In my experience, I've found that a large proportion of the corporate meeting planners will only select properties that have golf accessible," says Jack Schmidt, vice

president of sales and marketing at Benchmark Hospitality, which runs a total of 29 conference centers, conference resorts, conference hotels as well as private meeting facilities nationwide and in Canada. "The reality is when you send four people out there for five hours or so, what you do get done from a relationship-building standpoint is incredible."

So important is golf in most cases, says Schmidt, that he recommends booking tee time at the same time that a hotel or convention center is booked. "You don't want to assume that just because there is a golf course nearby you're going to be able to use it," says Schmidt. "You actually have to sign up in advance." This involves coordinating a specific golf schedule with the event schedule. "If you have a three-day conference, and you know that Tuesday afternoon is going to be the time you set aside for recreation, you're going to want to make sure that the golf course is available Tuesday afternoon," he says. Keep in mind that Mondays are typically the day private golf courses reserve for outings, such as charity tournaments. "This means that many private courses are available for corporate events on Mondays," says Schmidt. "It also means that these private courses can be booked up on Mondays, so it's important to plan from six to eighteen months in advance to guarantee tee time, especially during peak season at a popular resort."



Golf is key to a corporate event, not just for recreation but to develop professional relationships.

Weather also can be a factor in scheduling, but here, says Schmidt, there are two schools of thought. "If you go to someplace like Arizona in peak season, you're going to have a tough time with availability, and you're going to pay premium prices," he says. "If you go off-peak and play very early in the morning, you have the ability to play premium courses because they've got the times available, and it's typically going to be much less expensive."

Using Golf as a Tool

One of the major problems meeting planners face is how to manage the varied skill levels of golfers attending a conference or corporate event. "Typically, you're going to have a few people who are avid golfers, a fairly large body who just will play a couple of times a year and then you may also have another group of people who don't play at all," says Huestis of Adams Business Media. Simply grouping people according to their skills is not likely to further business goals. "That's using golf to separate people, when what you really want to do is use golf to bring people together," he says.

Instead, the challenge is to create ways to mix players of varied skill levels, and for this golf is an ideal medium. "If you're an ace tennis player, you're going to hate playing against someone who has picked up a racket only once or twice before," says Huestis. "But the beauty of golf is that people of all levels can play together, and enjoy it." One favored method of arranging this is through a tournament known as a "scramble," which creates foursomes out of players of varying abilities. Conference and meeting attendees are queried in advance about their handicap, then divided into four categories of equal size. "The best players become the captains of the

teams, and the other players are divided to create foursomes with a roughly similar range of ability, from expert to novice," says Huestis.

When the play begins, each of the four players takes turns teeing off. "At that point, however, you go and select the best shot, and

all of the players move their ball where the best shot is, and continue from there," says Huestis. This continues after each stroke, with all the players moving the balls to the best position, until one player sinks into the hole. The beauty of the scramble is that on any particular swing, one player might end up assisting the team. "You may hit a terrible shot when you tee off, but then end up putting 30 feet and have it go into the cup — and be the hero!" says Huestis. "That's the kind of interaction you want, and that ends up making an event a success."

If an event includes novices, says Huestis, the key is to spare them any embarrassment. For those who have never played golf before, even a scramble tournament may be too much of a challenge. "You would be better off arranging a private session for them with the golf pro, and then maybe their own tournament of three to six holes," he says. When working with novices, take nothing for granted. They may not know the etiquette of golf at all, even simple things such as the requirement to wear collared shirts. "Be up front about this," says Huestis. "Let them know tactfully that it's OK to wear sneakers or tennis shoes instead of golf shoes, but that it's not OK to wear T-shirts or short shorts. These are your colleagues, after all. The



Involve the golf pro early in planning the golfing portion of a corporate event.

last thing you want to do is see them humiliated in front of their peers."

The key, says Bruce Seigel, director of marketing for Ritz-Carlton hotels, is to find ways to "have fun" with golf. "The golf pro at the resort can come up with any number of ways to arrange this," he says. Some examples include reversing the score tallies to make the losers the winners, or to create entertaining incentives, with a lighthearted twist such as having the winning team wash the car of the losing team. "There's always a place for traditional foursomes and relation tournament play," says Seigel. "But with golf at a business meeting, there's also a great potential for creativity."

A Useful Ally

While a meeting planner can be a great asset in setting up a conference, it is the golf professional who will be the most help in managing the golfing portion of a corporate event. "He or she can be your greatest ally — or your biggest nightmare — depending on how you manage it," says Huestis. It's best to talk with the golf pro early on in the planning, explain the goals of the meeting and solicit suggestions on how to best accomplish them through golf. "You don't want to wait until the day you show up for the conference to meet with

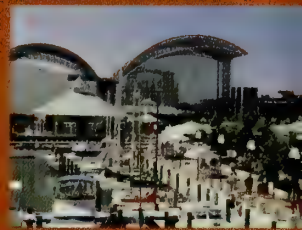
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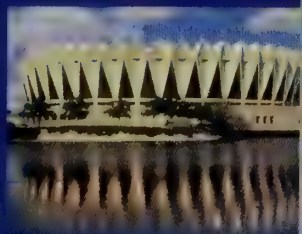
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the golf pro," says Huestis. "By then, it's way too late to plan anything creative."

With enough time, the golf professional can help with every aspect of an event. They can help devise a query or survey to gauge the skill level of conference participants. Using that information, they can then plan an event or series of events to help achieve specific goals, whether that is team-building or client networking. "Above all, the golf professional can help you plan an event that is fun and rewarding, and that includes everyone and embarrasses no one," says Huestis.

In addition to leaving plenty of time to plan, one way to ensure good relations with the head golf professional is to let them know in advance that you intend to buy any gifts or prizes directly from their golf shop. This can include things such

as gift packs of golf balls, equipment rentals or clothing. "You could buy these sorts of things from a discount company, which might save you 20% over the cost of buying them from the pro shop," says Huestis — but it risks generating bad will. "Showing up with your own golf prizes is kind of like showing up for dinner at a restaurant with your own cocktails," he says. "You might be able to do it, but the restaurant staff sure isn't going to be eager to please you." Instead, purchase knowing that the additional attention resulting from the purchase of these items directly from the golf shop will more than offset the retail costs.

Making It Memorable

In addition to actually playing a round of golf, one popular addition to an executive meeting or conference is to offer an

instructional clinic. This can help with levels, from beginners to experts, says John Fechter, president of Resort Golf Group, which runs 20 golf schools across the country. At a recent sales conference, for instance, Fechter worked with women executives who had never played golf before — many of whom said they thought it had limited their ability to network with clients. The clinic began with a game, loosely styled after the show *Jeopardy!*, in which the attendees learned the rules of golf and etiquette. "Rather than a boring lecture, it gave them a fun introduction to the basics in a nonintimidating way," says Fechter. The next day, the women were led on a four-hour clinic designed to give a hands-on introduction to the sport, and play a scramble of their own. "They hit 1 ball from tees throughout the course."

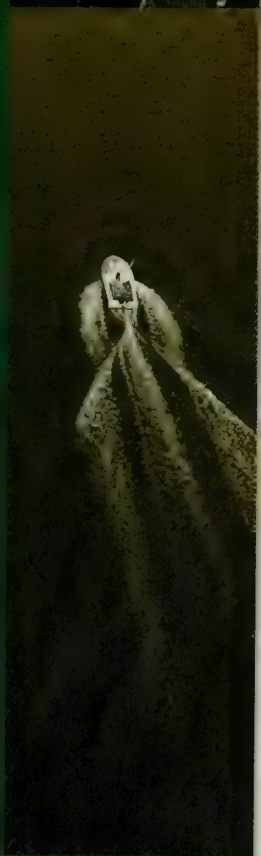


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which made it easier," says Fechter. While none were experts by the end of the clinic, "they got over their fear of the game, and many said they felt motivated enough to continue taking lessons on their own."

Clinics also can help more advanced players and can become particularly appealing when offered to clients as a bonus or as a reward to executives. At a conference to launch a major new product, for example, one company offered a four-hour clinic for more advanced players, which included one-on-one coaching with a golf pro. "Most people have never had formal instruction, and have not seen their golf swing on video," says Fechter. Instructors with Resort Golf videotaped the players' swings and then offered constructive techniques on how to improve them. "If you can improve a

client's golf game, I promise you, they're going to remember you and thank you for the rest of their life," he says. "And in four hours, I promise you, you can improve somebody's game."

The key to success with golf and corporate events, says Fechter, is to set enough time aside for clinics and tournament play. "You can't accomplish anything in an hour, other than maybe a simple demonstration by an expert," he says. "You need three to four hours, preferably over a couple of days, to really accomplish something." Rather than adding up to time lost from important business goals, the goodwill and camaraderie that is generated by golf can more than recoup the investment. "A good golf experience goes a long way toward creating a positive meeting or conference," says Fechter. ■

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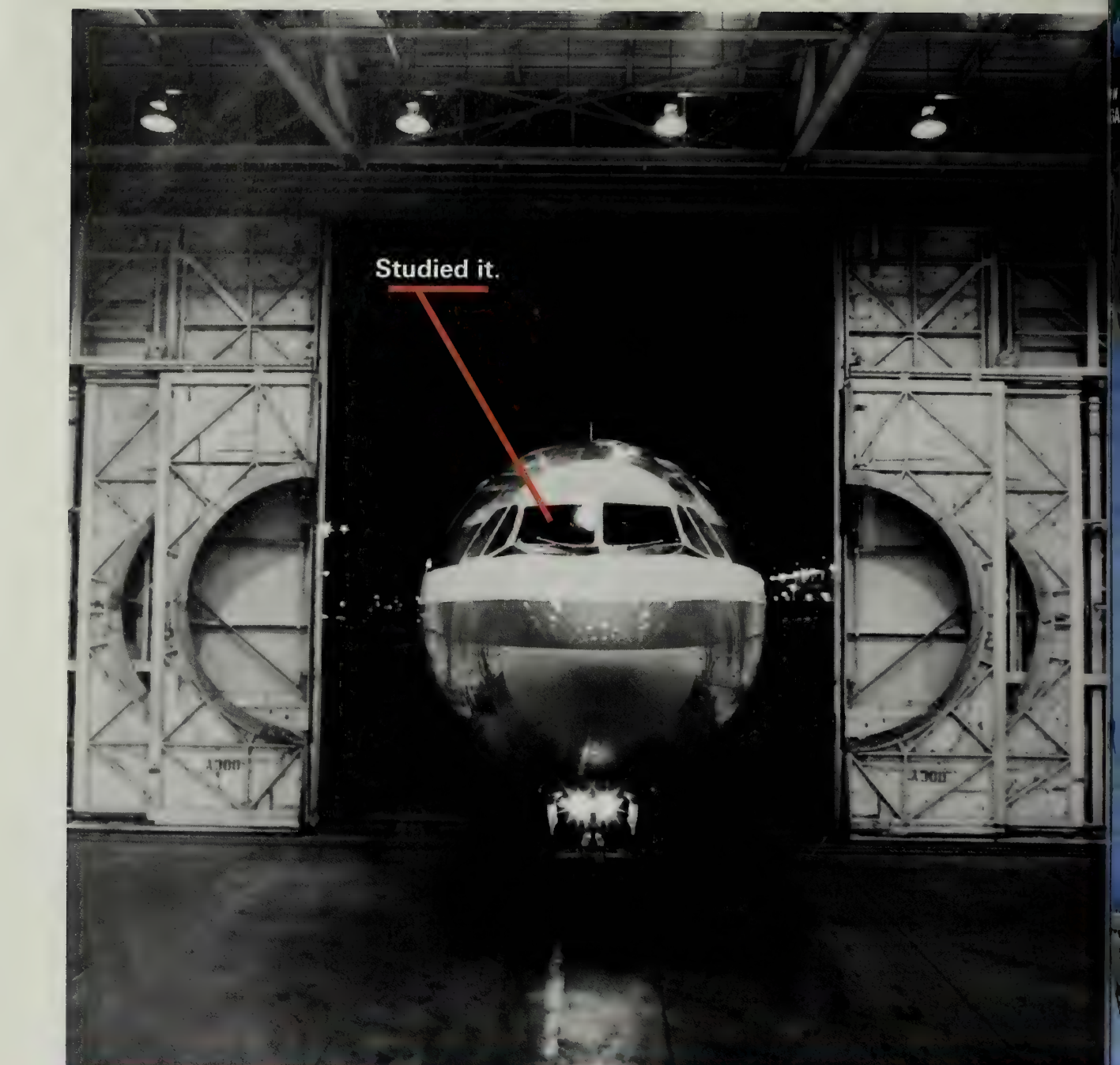
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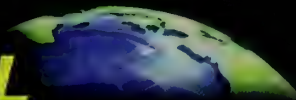
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Avoid the Bond Trap

WHETHER IT TAKES ANOTHER FEW WEEKS OR longer to detoxify Iraq after the Saddam gang's departure, investors are still faced with a serious problem. With continuing disappointing economic news, falling earnings expectations and high valuations, the stock market hardly looks attractive today. Real estate, gold and collectibles are also faltering.

Only bonds have continued their spectacular upsurge. Over the past three years of bear markets the 30-year Treasury has shown an annualized return of 9.7% against a drop of 12.4% annualized for the S&P 500. But don't bet this strength in bonds will continue. Long-term bonds are as overpriced today as stocks were at the height of the bubble in early 2000. The reason bonds are due for a fall is simple: inflation. There are three forces pushing for inflation.

1) The Federal Reserve is printing paper to energize the economy. Twelve rate cuts have put the Federal funds rate at a 41-year low. The money supply is increasing fairly rapidly, currently at a 6.3% annual rate.

2) These normally expansionary Fed actions come at a time when prices are likely to rise anyway, as a result of higher oil prices. (Despite a recent pullback, the trend for several years has been up.) Oil accounts for 40% of the cost of petrochemicals and 25% of the cost of food, and a smaller but significant fraction of costs in a host of other industries. Many industries, now operating on very thin margins, will have no choice but to hike their own selling prices.

3) Finally, the budget deficit at \$304 billion today will increase by \$75 billion to \$100 billion, and perhaps considerably more, once all the bills come in for Iraq. The passage of further tax cuts to spur the economy will also increase future deficits and thus inflation.

Even in a lackluster economy these forces could result in accelerating price increases. It's fair to assume that any sustained business pickup would cause still more upward pressure on prices. It's only fair to note that Alan Greenspan doesn't see things this way. But then again he was too optimistic during the late 1990s.

If this scenario plays out, buying mid- or long-term Treasuries

What's the safest place to be as the economy enters the post-Iraq phase? Out of fixed-income securities like medium- and long-term Treasuries. Into high-yield stocks.



who own these bonds will unload them, pushing prices down and yields up.

How bad is the risk? If interest rates increased by only one percentage point from their 40-year lows, a holder of a 10-year Treasury would see its value decline by 7.8%, while the holder of the 30-year bond would see it decline by 13.7%. If inflation spiked and interest rates rose by, say, three points, the 10-year bond would lose 21.4%, the 30-year, 33.7%. This has happened before, in 1980-81, when long Treasuries yielded 15%.

What are your alternatives? Nothing that promises to deliver great riches, as tech stocks did in the last decade, or bonds did more recently. One option is to own Treasuries of very short maturity, say, 18 months or less. Staying hunkered down in this fashion will give you a -2% aftertax real return. But that beats 7.8% to 33.7% capital loss (before taxes and inflation).

A second alternative in the current depressed stock market is to buy a diversified portfolio of financially strong, high-yielding stocks. This strategy should provide you with some protection from inflation—unlike bonds, stocks can hold their real values through decades of inflation—not to mention good old income. We don't know when, but someday the market will recover and you should see some good appreciation.

Here are four such stocks to consider.

Allied Capital (21, ALD) is the nation's largest business-development company, investing primarily in middle-market private firms. Allied yields 10.6% and trades at 9 times trailing earnings. **Alliance Capital Management Holding (31, AC)** is one of the nation's biggest institutional money managers. The stock trades at a P/E of 14 and yields 6.7%. **UST (30, UST)** is the country's largest producer of smokeless tobacco, and as such does not have any cigarette liability. The stock trades at 11 times its like earnings for 2003 (it had a one-time charge last year that zapped earnings) and yields 6.7%. Finally, **Fleet Boston Financial (25, FBF)**, the seventh-largest domestic bank holding company, trades at 11 times 2003 estimates and yields 5.6%.

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David Dreman is chairman of Dreman Value Management of Jersey City, N.J. His latest book is *Contrarian Investment Strategies: The Next Generation*. Visit his home page at www.forbes.com/dreman.



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Whip Deflation Now

NOW HEAR GOICHI SEINO: "BONDS ARE THE ONLY option." The bonds in question are Japanese governments, and their yield to a ten-year maturity is all of 0.7%. Seino is a professional investor, employed by Yasuda Capital Management Co. in Tokyo. What's wrong with him?

A better question is: What is wrong with all of us? Government bond yields are low the world over. In Japan they have never been lower. Yet Seino is bullish on bonds. Many are.

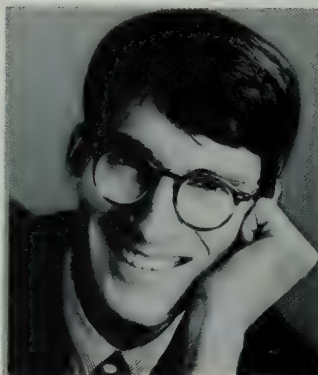
Seino is a type. He, like many, is bearish on the Japanese economy, bearish on the Japanese stock market and bearish on the ability of the Bank of Japan to engineer rising prices. He believes that prices will fall—the value of money will appreciate—and that the government is powerless to stop them from falling.

There are American Seinos, too. Taxed with the fact that U.S. Treasuries, at prevailing low yields, offer little potential for gain and much for loss, they point to the Japanese experience. One year ago the Japanese ten-year yielded 1.4%. It seemed low, but it went lower. They can't imagine that yields would go back up, either in Japan or the U.S.

If Seino is guilty of building a forecast on an extrapolation, he is only doing what others do. Theorists say that markets discount the future, but what people know is the past. For a bond bull, that knowledge is sweet. The arithmetic is as you remember it: As bond yields fall, bond prices rise. In Japan the yield doesn't have very much further to fall. If it were to be sawed in half, to 0.35%, the price of the bond would rally from a little over par to 103½. And if the yield were halved again, to 0.17%, the price would rise to the heights of 105¼.

Seino knows how meager are the possible capital gains. But because Japanese prices are broadly falling, the value of the yen is rising. If the Japanese price level fell by 2%, the bondholder would be 2% better off. If, in addition, interest rates fell, there would be a small capital gain. And, come what may, there would be that rich and dependable stream of coupon income: 70 whole basis points a year.

To Alan Greenspan, Seino is the personification of trouble. He is the kind of person who doesn't consume (he's waiting for



lower prices), doesn't invest (except in government bonds) and doesn't respond to the stimulus of conventional monetary policy.

In the U.S., where the Consumer Price Index is 3% higher than it was a year ago, there is no deflation. But there are plenty of deflationary symptoms, and the Fed is worried about a visitation of the real

thing. It has cut the funds rate a dozen times since January 2001 yet the economy and the market still run hot and cold. It has only 125 basis points left to cut. What would it do if, at 0%, Wall Street still had the dwindles?

Greenspan has been telling us what he would do. For months his deputies and he have vowed to whip deflation, even before it materializes. They have described the dollar—their dollar and ours—as a piece of paper of no intrinsic value that can be produced “at essentially no cost.” They have pledged that, if need be, they will push down not only the funds rate but also longer-dated Treasury yields. In so many words, they have threatened to manipulate the length and breadth of the Treasury yield curve.

What would this mean in practice? Lower government yields and more credit creation to start with. By pegging the ten-year note at, say, 2.5%, the Fed would have to buy all securities offered at 2.5% or higher. The Fed, of course, is no ordinary acquirer. It creates the dollars it spends. For all intents and purposes, it waves a magic wand.

“Such actions have precedent,” Greenspan told a New York audience in December, referring to the 2.5% cap imposed by the Fed on long-dated Treasuries between 1942 and 1951. What he did not explain is how that wartime expedient would work in today's world of free international capital flows and a chronic U.S. payments deficit. Nor did he speculate on how such a radical shift in monetary policy would sit with foreign dollar holders.

America's own Seinos are pleased that the Fed stands ready to sit on the Treasury yield curve. However, they can't be so pleased as the world's gold bulls, of which I am one. By vowing to meet deflation with inflation, the Fed is only doing what it has mainly done since its inception.

First Eagle Gold Fund and Tocqueville Gold Fund would provide protection in case the Fed waved its wand a little too hard.

The Federal Reserve is acting as if the U.S. were facing Japan-style deflation. With the CPI up 3%, the real problem is in the other direction.

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IF YOU THINK CHINA IS THE ECONOMIC WONDER OF THE world, you have plenty of company. The country reports that its gross domestic product is rising 8% annually at a time when fully developed countries are stagnant. It is enjoying the good deflation of excess supply, driven by rapid industrialization and Western technology. China is the global low-cost producer of a widening array of manufactured goods. For many U.S. manufacturers the choices are these: Slash prices and costs to meet those of Chinese imports, move production to China or fold up shop.

Other Asian lands ran out of unemployed people as they developed and had to shift to more sophisticated output to accommodate increasingly expensive labor. China has not. Almost half of its 320 million farmers are not needed to work the land, by the reckoning of the Ministry of Agriculture. There are around 80 million redundant workers in government and government enterprises, not to mention the 100 million squatting in the coastal regions, looking for work, and also the soon-to-be-employable youth—a quarter of the Chinese are under age 15. So China has 500 million potential new workers.

How long could China maintain 8% annual economic growth before exhausting this huge pool of unemployed? About 30 years, assuming 4% annual productivity growth—no great feat for a developing country that can adopt modern technology. Also, the growing Chinese middle class promises strong domestic demand, which will reduce dependence on exports and lead to greater imports. Maybe one day each of those 1.3 billion Chinese will drink one can of Pepsi.

But if you are awed by China's current and potential power, think twice. Recall the awe over Japan during its 1980s bubble days. Remember how we were all going to be sweeping up around Japanese computers? My contrarian forecast in 1988 was that Japan's bubble was about to break. I feel the same way now about China.

To begin, I don't believe China's official 8% growth figure. It's a politically mandated number, first conjured up in 1988 by Chinese officials. Independent surveys of industrial capacity, energy use, employment, consumer income and spending and farm output imply much slower

**Is the world's
largest nation a
wonder of growth?
Don't believe it. The
growth figures are
cooked. A lot of
problems are kept
out of sight. Think
Japan, 1988.**



growth. Chinese from the to down have long known this: 1999 Premier Zhu Rongji complained that "falsification and exaggeration are rampant." The official 4% urban unemployment rate jumps to 9.3% when laid-off workers, who receive modest stipends, are added to the registered unemployed. And while the official poverty rate in cities is 2%, the Asian Development

Bank estimates it's 11%. Note that the 1989 Tiananmen Square demonstrations were preceded by urban labor unrest.

So China needs rapid growth to employ the urban idle and the inflow from farms and to fund adequate roads, housing and farming modernization. Huge education outlays are needed to turn those rural youths into productive urban workers. Pensions and social security, new to China, are gigantic money sinks. The military is another big drain. China also has to rescue the state banks, which are essentially broke because of the bad loans used to support equally bankrupt and overstaffed government-owned businesses.

What's more, China's two recent growth engines are highly vulnerable. First are exports. Official data show that from 1990 to 2001 exports averaged 21% of GDP but accounted for 48% of GDP growth. And most of those exports go directly or indirectly to the U.S. American consumers have ended their 20-year borrowing-and-spending binge and are embarking on a saving spree, which I forecast in past columns. So the outlook for Chinese exports is glum. Ditto for foreign direct investment in exporting businesses that employ 6 million.

Government deficit spending is the other growth source and it's under pressure. Officially China is running a surplus equal to 2% of GDP. The reality, though, is that if all the off-balance-sheet financing and capital outlays are included, the country is running a deficit of at least 4%. Government debt at 17% of GDP, may seem small, but potential liabilities run that 150%, gigantic for a primitive financial structure. As for the Chinese middle class, surveys dispute government data and show that both urban and rural consumers are, despite falling consumer prices, big savers, not lavish spenders.

China will continue to be the low-cost producer of manufactured goods. Beware, though. The nation's attention may be diverted by domestic unrest and restructuring problems. This could hurt both securities investments in China and foreign direct investments.

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Willpower-Free Dieting

Bariatric surgery is profitable for doctors because it's popular with patients. Maybe a little too popular. BY EMILY LAMBERT



NATALIE KAYE PARSLEY, A 39-YEAR-old single mom in Magnolia, Tex., tipped the scales at 275 pounds last summer when she opted for so-called gastric bypass surgery. Her surgeon divided her stomach into two pouches, one the size of a ping-pong ball. The surgeon then connected the smaller stomach directly to the intestine, bypassing the rest of the stomach. Parsley lost 100 pounds but in return got a 10-inch scar, two weeks in intensive care and \$300,000 worth of medical bills from complications and resulting surgeries. She is now one of 18 patients suing her surgeon for negligent gastric bypass surgery. In a separate incident Detroit Councilwoman Brenda Scott died last September from a massive infection following the same surgery. Her family is filing suit.

Gastric bypass is a form of bariatric surgery—from the Greek *barys* (heavy)—which was on the fringes of medicine just a decade ago but has now gone mainstream with a vengeance. Doctors and hospitals are straining to cope with the demand for this weight-loss procedure, recently popularized by TV weatherman Al Roker and pop singer Carnie Wilson. An estimated 63,100 were performed last year, up from 23,100 in 1997. Desperate patients will often pay an average of \$25,000 up front if they find their insurance won't cover the cost.

But this risky surgery may be getting too popular. Though intended only for the morbidly obese (those with 100 pounds or more of excess weight), the surgery is attracting the attention of thinner patients who want a quick fix. What the patients don't anticipate is the need to permanently adjust their lifestyle and eating habits to live with a smaller stomach. The surgery can cause gastric juices to leak from the stomach, poisoning the bloodstream and causing death or deficiencies in

iron and vitamin B-12, which could lead to anemia and neurological damage. In short, bariatric surgery involves so many risks that it should be used only as a last resort after diet and exercise have failed and then only with patients at high risk of mortality (from heart disease or diabetes, for example) because of their weight.

The cautions aren't sinking in with the public. Dr. G. Michael Steelman of Oklahoma City, past president of the American Society of Bariatric Physicians, had a patient so determined to have the surgery that she gained 25 pounds. She succeeded with this gambit.

Though the mortality rate for bariatric surgery, according to the most recent (2002) report from the International Bariatric Surgery Registry, is 0.3% during the first 30 days after surgery, it's lower than the 1% for a hip replacement and 2.8% for heart bypass surgery. Kathleen Renquist, manager of the registry, says these rates may be low because of a lack of data resulting from the failure of surgeons to follow up on patients. The rate of follow-up at one year is 65%, but at three years it's just 22%.

Unlike, say, neurosurgery, bariatrics requires no special certification. Any general surgeon can get in on the action. And it's up to a hospital to decide whether a surgeon has enough experience. The American Society for Bariatric Surgery and the American College of Surgeons have guidelines for hospitals to follow when awarding surgical privileges, but they're unenforceable. "This is not like doing a gall bladder or appendix operation," says Dr. Harvey J. Sugerman, a professor at Virginia Commonwealth University, who has performed 1,500 bariatric surgeries. One San Diego, Calif. bariatric surgeon's malpractice insurance has increased by a factor of four in the past year. Sugerman worries that bariatric surgery will become uninsurable. In his view a surgeon who wants to perform even minimally invasive bariatric surgery should attend specific courses, take fellowships and operate under the trained eye of an expert surgeon. The novice surgeon's work should also be evaluated. That, he says, happens now only sporadically.

F

GREGORY MARTIN GOT HIS FIRST GUN WHEN HE was 12 years old. A muzzle-loading 1863 Colt revolver, it was priced at 15 bucks in a San Jose, Calif. junk store. If Greg could get it for 10, his mother said, she'd buy it for him. Martin won his price. At home on his parents' walnut and prune ranch in San Martin, Calif., he admired the stagecoach scene engraved on the cylinder. "I could envision cowboys and Indians and the Gold Rush and all the places it had been," he recalls. He was hooked.

He taught himself to make bullets, melting lead on the kitchen stove and pouring it into molds. He shot at targets, deer and rabbits. He researched what the gun was really worth: \$125. Soon he began combing flea markets, antique shops and junk stores for more deals. He'd pick up a Colt dragoon revolver for \$250, then sell it for \$350. A Confederate revolver he found for \$225 went for \$400. He advertised in *Shotgun News*. Buyers sent him checks, and Martin (still too young to shave) mailed out guns in cardboard boxes. Then, as now, no legal restrictions impinge upon the buying or selling of guns made before 1898.

Today Martin, 61, is dealing on a grander scale. A year ago he left his 16-year post as director of arms and armor at San Francisco's Butterfields auction house to open up his own shop, Greg Martin Auctions. His first auction brought in \$5 million, with 90% of items sold. (Butterfields' competing sale brought in only \$1.3 million, with a third of its items unsold.) Three more Martin auctions have since brought in \$11 million, and he expects his June 16 sale, featuring 18th-century Lloyd's of London presentation swords, Lord Nelson's Battle of Trafalgar orders and a collection of memorabilia related to Wild Bill

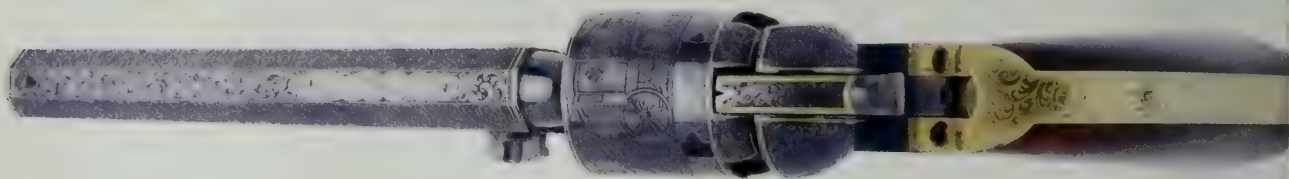
Hickok, to keep the heat on competitors.

Martin divides his time between a Gold Rush-era house at San Francisco's Telegraph Hill, where the theme is the Wild West (racks of Colts and Winchesters, plus an 1880s roulette table with scrimshawed ivory chips), and a country house in the Napa Valley town of Rutherford. There he makes wine and displays his European arms and armor, including seven 16th-century pikes (8-foot-long spears) and halberds (pikes with hatchet blades). A hallway on the third floor serves as a shooting gallery. "It's my own little world," he smiles. "I like to live with my toys." The collection includes a red Bentley with a license frame that reads, "My other car is a stagecoach." His blonde, German-born wife, Petra, prances around in black jeans and Chanel snakeskin sneakers. Artwork includes nudes by western artist A.D.M. Cooper.

Asked what effect the paintings might have on the couple's 10-year-old daughter, Greta, Martin shrugs. "She doesn't think about it. It's art." Greta got her hunting license last year and has already blasted boar with Mom and Dad.

Martin's formal education ended when he dropped out of community college after six months. "It became apparent to me that college merely trained people to work for somebody else," he says. When pursuing what he wants, he can be single-minded, ingenious. He hadn't intended to make wine in Rutherford until the local planning commission forbade his having a 16-foot-high gate on his property. Only a commercial outfit, he was told, could have a gate that tall. So Martin planted 8 acres of grapes, hired a winemaker and got himself bonded as a winer.

For years he coveted a shotgun in Harrah's Pony Express Museum in Reno that had belonged to Black Bart, the 19th-century robber famous for leaving poems at the scene of stickup



Trigger-Happy

Dealers in antique firearms resent rival Gregory Martin.
His sin seems to be that he's too successful.

BY SUSAN ADAMS



Little bid man: antique-arms auctioneer Greg Martin at home in San Francisco.

In 1986 Martin got a chance to buy it, but there was a catch: Holiday Inn Corp., which had acquired Harrah's, was dumping the whole museum; they wouldn't sell an individual piece. Martin ponied up almost \$1 million, bought it all, took what he wanted, and brought the remainder to Butterfields, where it sold at auction for well over \$1 million. His relationship with Butterfields grew from there.

Martin built Butterfields' arms and armor business into the largest in the world, racking up total sales of \$100 million. Ever the maverick, he never became an employee. If a sale were unsuccessful, he'd get nothing. But that never happened. On successful sales, he got as much as half of the seller's commission, which could range as high as 25% of gavel price. He enjoyed near-complete autonomy in making deals.

This sweet arrangement soured after Butterfields' owners, Bernard Osher and John Gallo, sold out to Ebay in 1999 for \$260 million. The new regime, Martin says, imposed a stifling bureaucracy. He bolted to start his own business in June 2002, financed

by Osher and Gallo. Two months later Ebay unloaded Butterfields on Bonhams, a London-based auction house. Martin's departure, says a competitor, "devastated" Butterfields.

Rival dealers are quick to cast aspersions on his tactics. "He's very predatory," says John Gangel of Little John's Auction Service in Orange, Calif. "He has one friend, one god, and it's money." (Rejoins Martin: "It's nice to know I can elicit such emotions.") For 20 years he pursued a piece that he wanted, until the owner—ill and facing surgery—at last agreed to sell. Unlike many other collectors, Martin is prepared to part with even his most prized possessions—for a price.

Does a cocky attitude ever trip him up? In 1986 while in Tanzania to help make a documentary called *In the Blood*, which retraced Teddy Roosevelt's 1909 hunting expedition, a bush fire burned up a cache of antique guns Martin had supplied. Used to relying on secret vaults in his San Francisco and Napa homes to safeguard his collection, he had insured only one of the 25 pieces destroyed. Today he sports a \$3 million policy. **F**

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THOUGHTS

On the Business of Life

Not long ago I motorcycled to Englewood, N.J., which was home the first 25 years of my life. Just after passing what had been a woodland road then, and is now house-studded, a horn-honking car drew alongside. A high-schooler waved me to a stop. "I couldn't believe it when you went past our house on that fabulous motorcycle!" I explained that half a century ago I lived in the neighborhood. "I'm glad you came back, otherwise I might never have seen this super bike," said the greeter. So two of us enjoyed one man's coming home again. —MALCOLM S. FORBES (1982)

The next day is never so good as the day before.

—PUBLILIUS SYRUS

*Bliss in possession will not last;
Remembered joys are never past.*

—JAMES MONTGOMERY

*That is my major preoccupation—
memory, the kingdom of memory. I
want to protect and enrich that kingdom,
glorify that kingdom and serve it.*

—ELIE WIESEL

*In memory everything seems to happen
to music.*

—TENNESSEE WILLIAMS

*Memory is not so brilliant as hope,
but it is more beautiful, and a thousand
times as true.*

—GEORGE DENNISON PRENTICE

*People have this obsession. They want
you to be like you were in 1969. They
want you to because otherwise their
youth goes with you. It's very selfish but
it's understandable.*

—MICK JAGGER



*We do not remember days, we remember
moments.*

—CESARE PAVESE

I don't like nostalgia unless it's mine.

—LOU REED

*What joy can the years bring half
so sweet as the unhappiness they've
taken away?*

—LOGAN PEARSALL SMITH

*I can only wait for the final amnesia,
the one that can erase an entire life.*

—LUIS BUNUEL

*True nostalgia is an ephemeral
composition of disjointed memories,
but American-style nostalgia is about
as ephemeral as copyrighted déjà-vu.*

—FLORENCE KING

*What beastly incidents our memories
insist on cherishing—the ugly and the
disgusting—the beautiful things we have
to keep diaries to remember.*

—EUGENE O'NEILL

Women and elephants never forget.

—DOROTHY PARK

A Text...

*That which hath been is now;
and that which is to be
hath already been; and God
requireth that which is past.*

—ECCLESIASTES 3:14

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A dramatic landscape photograph. The sky is a deep, vibrant blue, with a bright, sun-like starburst in the upper right corner. The lower portion of the image shows a horizon line, with a bright yellow-orange glow on the right side, suggesting a sunset or sunrise. The overall composition is vertical, with the text centered in the middle of the frame.

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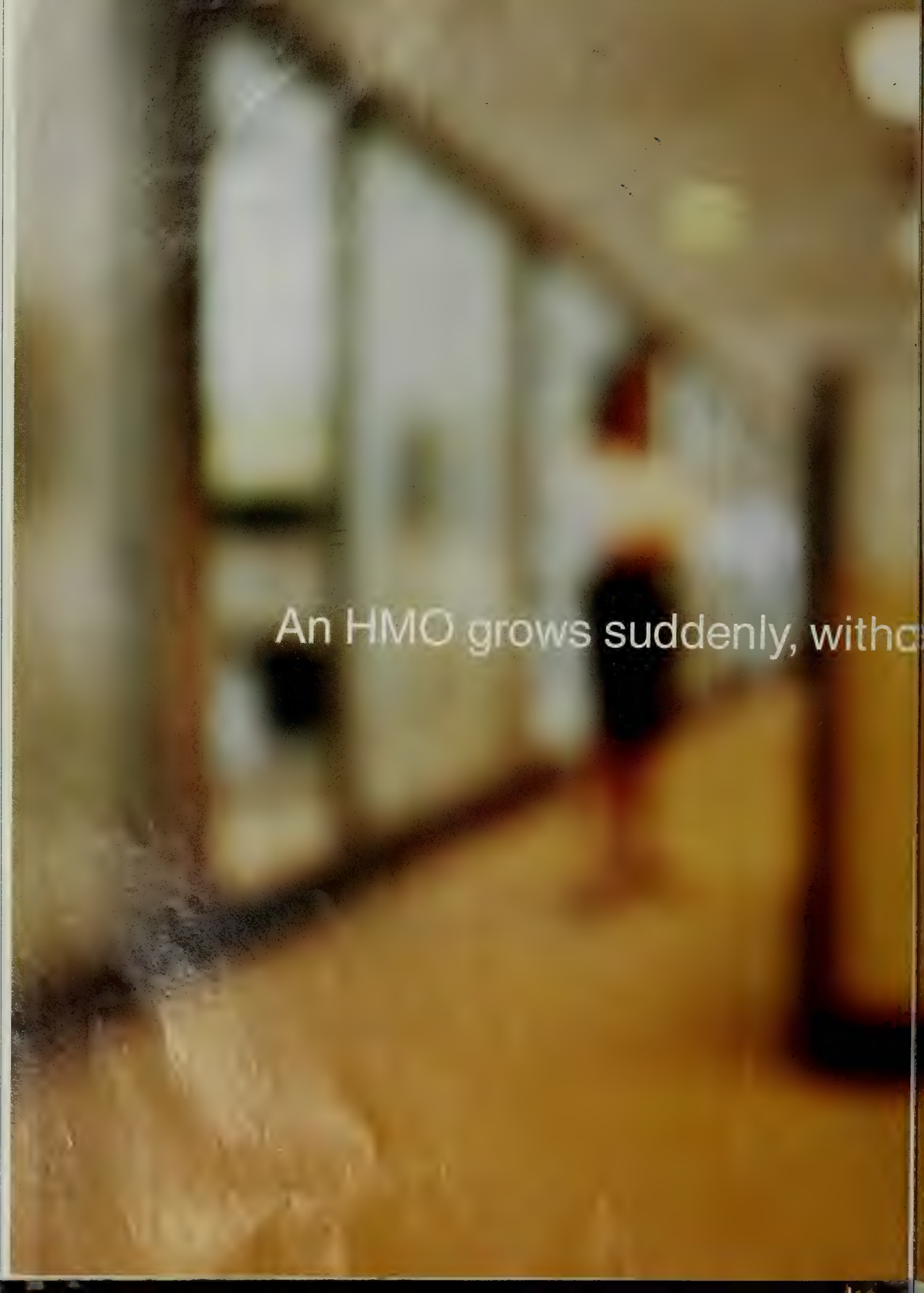
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A blurry, low-angle photograph of a person in a white lab coat running down a hallway. The person is in the center-right of the frame, moving away from the camera. The hallway has a light-colored floor and walls, with some indistinct shapes in the background. The overall image is out of focus, creating a sense of motion and urgency.

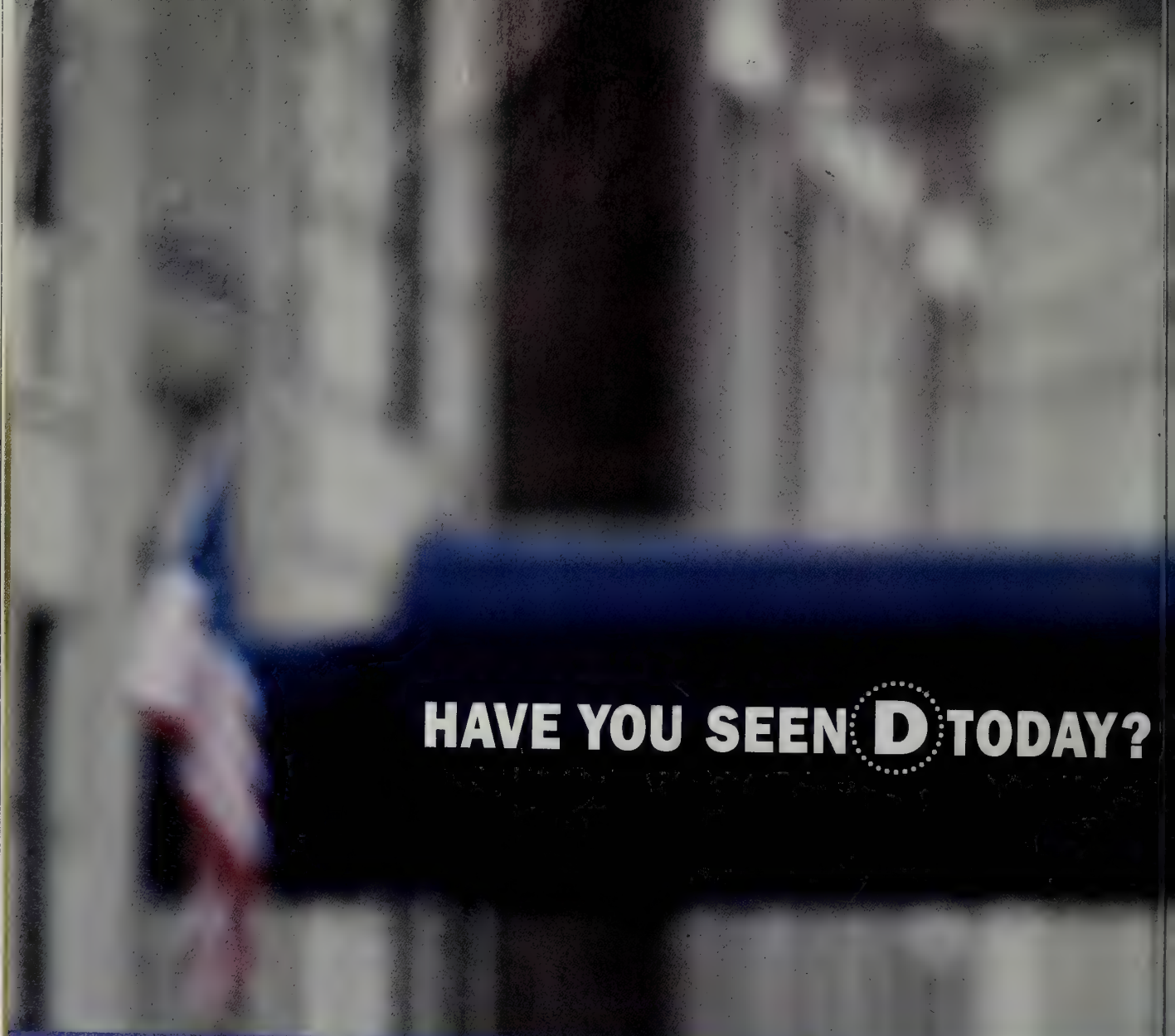
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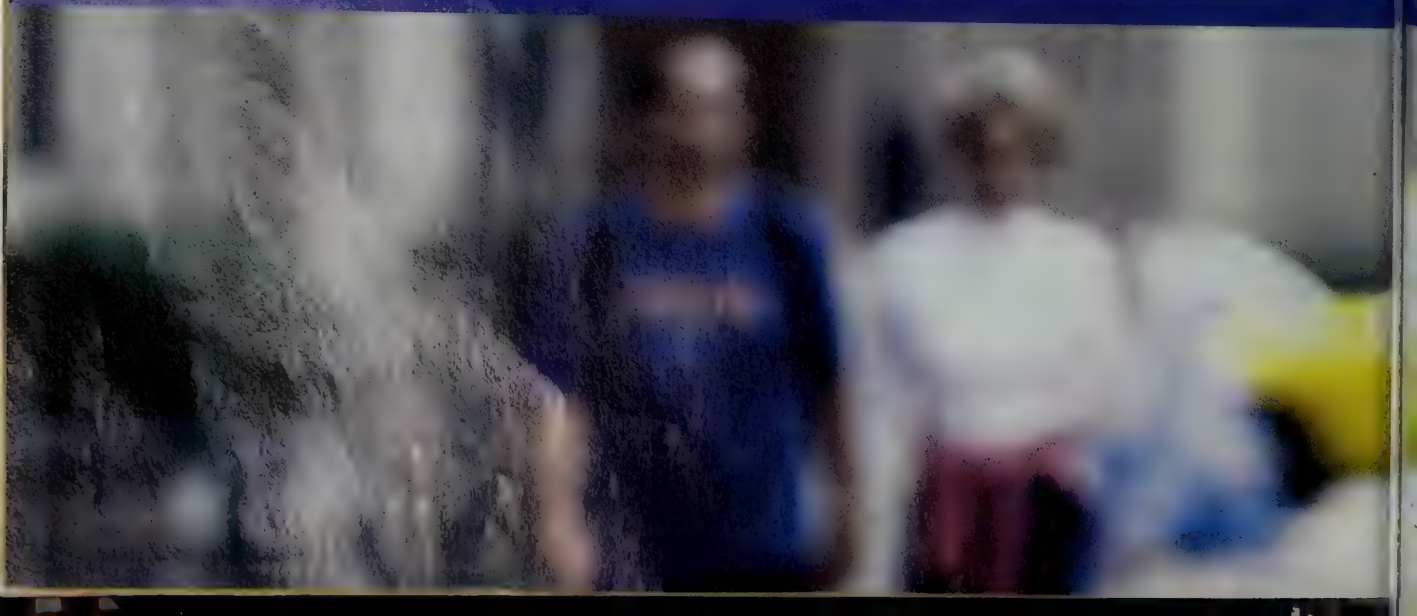
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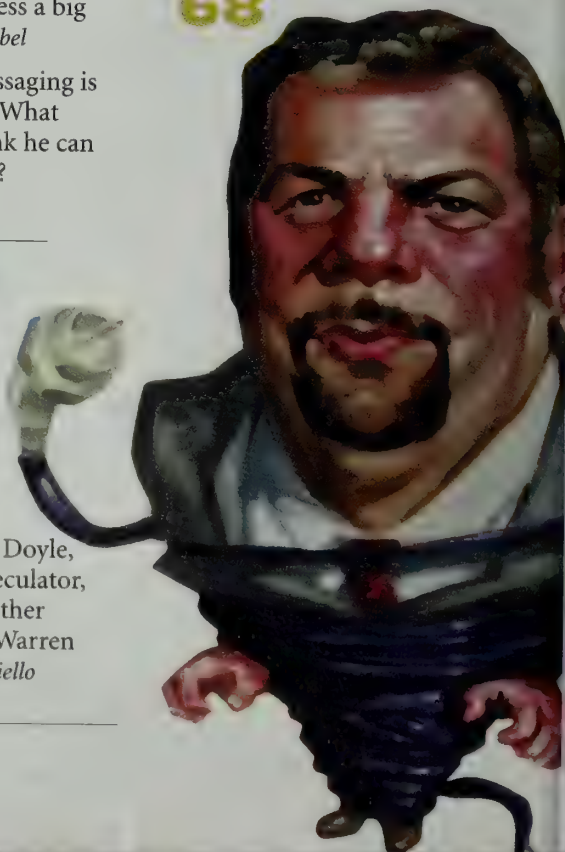
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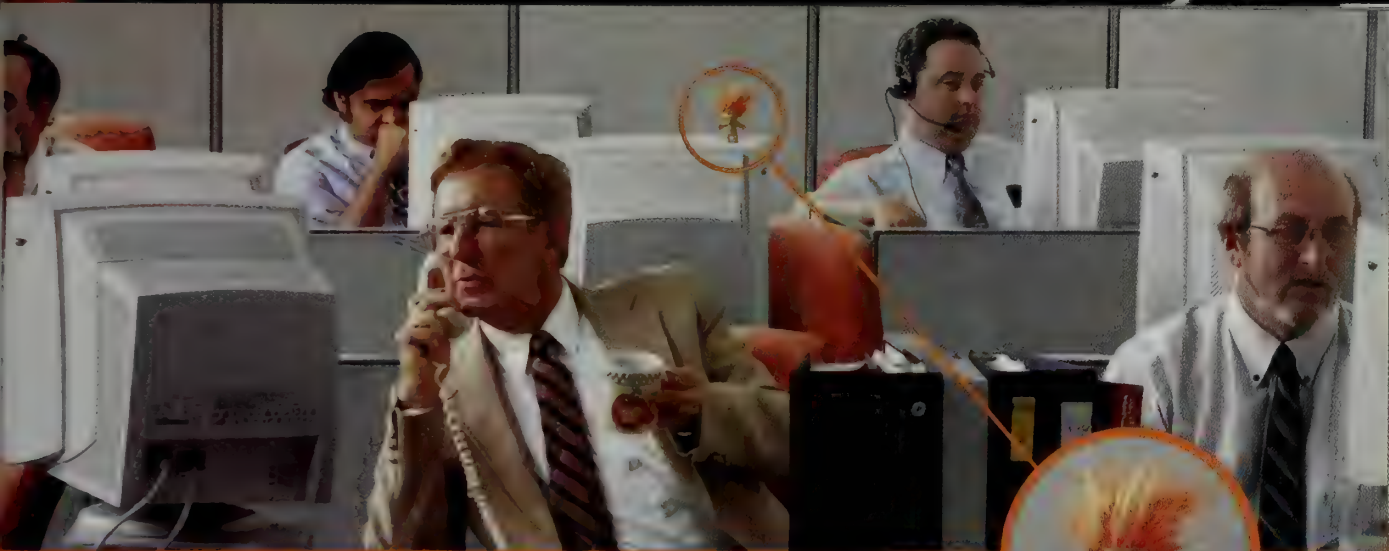
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"We got way ahead of ourselves."

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Top-Paid Chief Financial Officers

Ari Weinberg



Fred Anderson, Apple's money man.

In the post-creative-accounting era, chief financial officers have become their chief executives' financial cop, corporate-governance conscience and cost-cutter-in-chief—not to mention whipping boy for disgruntled shareholders and politicians. Who'd want the job, were it not increasingly seen as the final stepping-stone to the top? Meanwhile, many chief financial officers are starting to receive compensation approaching chief executive levels. Forbes.com taps into Aon Consulting's Ecomp database and ranks the best-paid chief financial officers among America's biggest firms. Plus, a list of the best-paid corporate general counsels.

Lifestyle

Lamborghini Turns 40

Michael Frank

Maybe because so many of its customers have experienced a midlife crisis, as Lamborghini enters its fifth decade it knows something about the angst of middle age. But after flirting with financial disaster for much of its existence, it has found stability in its 1998 marriage with Volkswagen. Since then Lamborghini, which shows no sign of mellowing with age, has introduced its best car ever, the 12-cylinder \$281,000 Murciélago.



Murciélago, a trophy-wife alternative.

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Forbes Global

The Outsourcing Dilemma

America's private sector has welcomed outsourcing back-office work to lower-wage nations as a way to substantially save on labor costs. The public sector, despite staggering deficits, is fighting to keep government jobs at home. FORBES GLOBAL looks in depth at the debate over this controversial issue.



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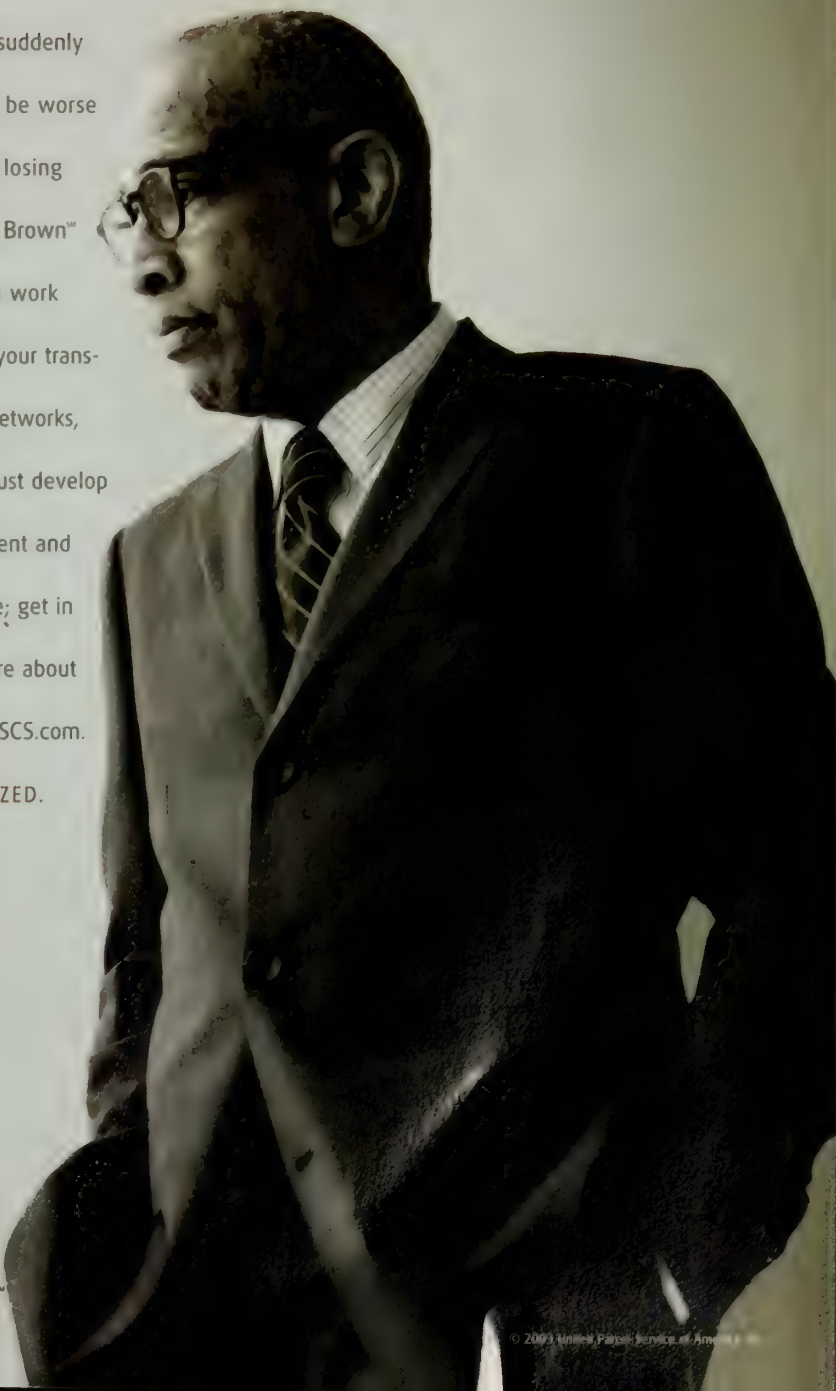
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SIDE LINES

Soak the Poor

What's the stupidest tax in the world? To qualify, a tax ought to (1) fall disproportionately on low-income families and (2) be levied in such a clumsy fashion that billions of dollars of the proceeds disappear in the collection process. I nominate the tobacco tort tax for this honor.

The tort tax was arranged by plaintiff lawyers and state attorneys general in 1998. To settle a tort case, cigarette manufacturers agreed to remit \$246 billion to the states. The tobacco companies, of course, just pass this cost along to smokers, so it's a tax in all but name. It comes to 50 cents a pack.

This tort tax comes on top of other burdens on smokers. In New York City addicts have to pay, in addition to the tort money, a combined state and local levy of \$3 a pack. The moral justification for tobacco taxes is that smokers impose costs on society, but that's voodoo economics. The truth is that smokers, by dying off before they can collect Social Security, do the rest of us a favor.

Both the \$3 excise and the 50-cent tort assessment are regressive—smokers tend to come from the low end of the income scale. But the excise, at least, is raised with minimal overhead. Not so the tort money. For coming up with the idea of having smokers pay extra, the plaintiff lawyers are getting \$10 billion or more.

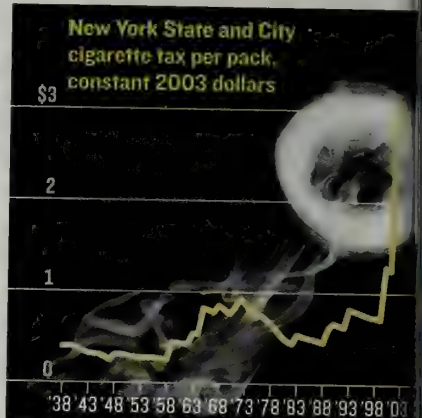
The spillage of dollars does not stop there. The states, desperate for money, cannot wait for their 50-cent payments to come in as people buy cigarettes. So they are borrowing against future tort revenue. Unlike a general obligation muni bond, which might pay 5%, these high-risk tobacco bonds have to yield upwards of 7% to attract buyers. The 2% spread is money down the drain.

Why are the tobacco bonds risky? Because the tort lawyers may yet bankrupt the tobacco companies, and then the bonds would go into default. With a straightforward tax hike, in contrast, it wouldn't matter whether Philip Morris goes bust and is replaced by a new vendor; the state would get its 50 cents no matter what.

Lisa Hess, an astute market watcher, says on page 184 that the bonds are a buy because tobacco is too big to fail. Indeed, it is not in the interest of parasites to kill their victims. So take a flier on the bonds—if it doesn't bother you that you are getting rich on the backs of poor people.

William Baldwin

EDITOR



Source: Cato Institute: Cigarette Taxes, Black Markets and Crime.

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READERS SAY

Job Vacancy

"Room at the Top" (Apr. 28, p. 68), about Jim Collins, should be another wake-up call for shareholders concerned with the state of management. Do modern CEOs need an "economic denominator" spelled out for them, for someone to tell them that they need to set a "big hairy audacious goal" and that they need to focus? Companies that pay millions of shareholder dollars for advice such as "get the right people in the right seats on the bus" should think about getting a new bus driver.

GARY SCHWARTZ
Falls Church, Va.



Clean Act

"Dangerous Liaisons" (Apr. 28, p. 84) does a disservice by failing to accurately describe ExxonMobil's straightforward approach to business controls, investment decisions and operational excellence. Yes, as the world's largest non-government-owned energy company we go where the resources are. But wherever we operate we rigorously adhere to policies and practices that guide the way we do business. The methods we employ to achieve results are as important as the results themselves. We maintain the highest ethical standards, comply with all applicable laws and regulations, and respect local and national cultures. We insist upon honest and ethical behavior from all employees. We are dedicated to running safe and environmentally responsible operations. ExxonMobil's long tradition of success is predicated on a deep respect for and an understanding of what our role in society should be. Our core principles build responsible business practices into the fabric of our operations.

KENNETH P. COHEN
Vice President, ExxonMobil
Irving, Tex.

Valuing Options

Since publication of "Not an Option" (Apr. 14, p. 46) several major shareholders have told us our option position was already known to them, based on nu-

merous disclosures and discussions. I have received only two letters on the topic, both from small shareholders. Our big shareholders make their decisions based on a more meaningful analysis of our fundamentals, like our competitive position (we're number one or number two in each of our four product lines), our new solar cell venture and our process technology. You dodged the difficulty of learning about those challenging details by substituting reading SEC documents for meaningful analysis. My final e-mail on this topic will come to you before the end of this year—when Cypress shares have appreciated 100% in value relative to their price on the day before your article.

T.J. RODGERS
Chief Executive,
Cypress Semiconductor
San Jose, Calif.

Just Cause

What is the point of "Criminalizing Capitalism" (May 12, p. 74)? Are you saying that audit costs will increase because competence, honesty and integrity cost extra? Can the systems that gave us so much fraud be relied on to function properly in the future? You complain about the increased cost for sufficient internal controls; should they be optional? You also complain that Wall Street firms have stopped covering 283 companies. Possibly the market

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for this service has declined due to what the article calls "embarrassingly bad" research. Others found this research to be fraudulent.

RICHARD F. WATERS
Topsfield, Mass.

Free Speech

"Follow Through" (Apr. 28, p. 42) erroneously suggested that Walt Pavlo, a former MCI manager recently released from prison, was paid to speak to the Southern Institute for Business and Professional Ethics. In fact, Pavlo did not receive a fee, nor did he request one, for his participation in our educational program, "Anatomy of a Fraud." We do not pay speakers, be they corporate chief executives, judges, or convicted felons.

JOHN C. KNAPP
*President, the Southern Institute for
Business and Professional Ethics
Decatur, Ga.*

We did not intend to imply that the Southern Institute for Business and Professional Ethics, the Haas School of Business at the University of California, Berkeley, or the Chicago Crime Commission paid Pavlo.—Ed.

International Relations

The multilateralism Ernesto Zedillo longs for in "When Diplomacy Flunks" (Apr. 28, p. 35) is a myth. Whether nations act for good or bad they do so in their perceived best interests. Europeans accepted the military dominance of the U.S. when it protected them from Russia, allowed them to build a social welfare system they couldn't afford and precluded them from any credible military spending. Now they decry it because it makes their weakness apparent. Zedillo believes the status quo was preferable to war. The hard fact is no one offered a credible alternative to the action the U.S. took in Iraq.

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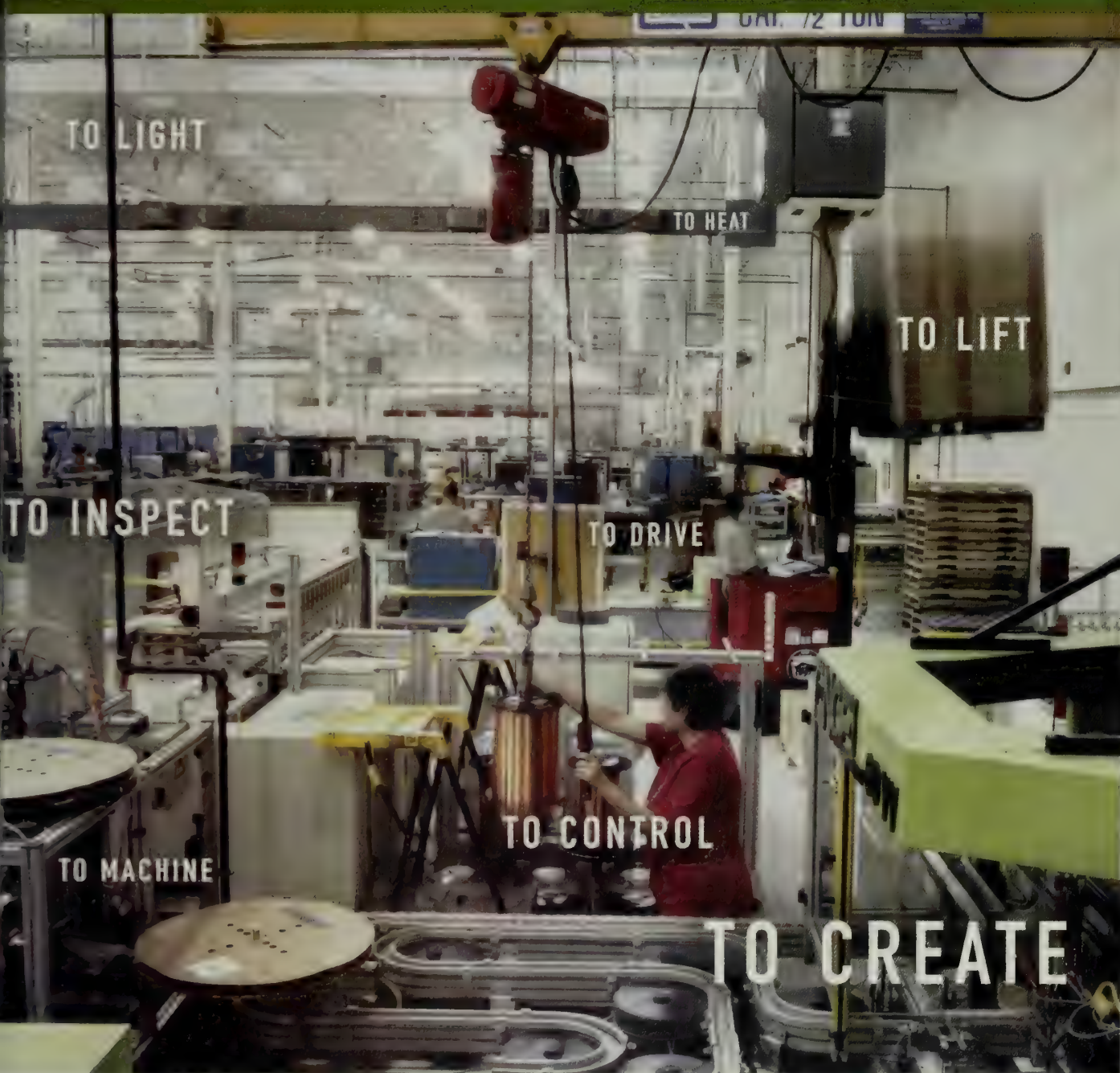
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By Steve Forbes, EDITOR-IN-CHIEF

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Backyard Trouble

THERE'S ANOTHER FOREIGN POLICY PROBLEM BREWING, THIS time in our own hemisphere—an attempt to make Venezuela a second Cuba. Strongman Hugo Chávez, who led an unsuccessful coup attempt in 1992, was elected president in 1998 in a popular vote of revulsion against the embedded corruption of the existing political elites. Since then, Chávez has been doing everything he can to turn his "presidency" into a dictatorship like Fidel Castro's. He used his initial popularity to gut constitutional checks on his power. Regime opponents now face arrest and even outright murder. Chávez is setting up vigilante committees in neighborhoods to inform on people. These committees also serve as an armed militia to back Chávez.

Venezuela has been a democracy since 1958, when a courageous leader, Rómulo Betancourt established representative government following a dictatorship. In the early 1960s Betancourt beat back Castro's efforts to overthrow Venezuela's democracy. Now Chávez wants to turn back the clock. He's cozied up to terrorist groups around the world, including those waging a murderous guerrilla war in neighboring Colombia.

Venezuelans of all classes and occupations have taken to the streets to protest Chávez's actions. He was thrown out briefly in a

coup last year, but the coup collapsed when it became clear that the old corrupt elites were going to return to their money-grabbing ways and would take their time restoring democracy. Chávez's smile, however, was soon wiped off his face as spontaneous protests continued. There was a general strike a few months ago, the effects of which sharply reduced Venezuela's oil production. But Chávez has clung to power.

Whether Chávez's rule should continue is supposed to be the subject of a referendum in August, but this Castro wannabe has made it clear he won't leave office voluntarily. He will either try to postpone the election or use his armed thugs to rig the results.

The U.S. has reacted gingerly lest Chávez play the anti-U.S. card—always an option in Latin America—to shore up his sagging popularity. The U.S. should



"Tell me, Fidel, how do you make yourself dictator for life?" Venezuelan strongman Hugo Chávez, à la Castro, is a tyrant posturing as a populist.

make clear that a clean August vote must take place—that Chávez must not be allowed to set up a virtual dictatorship, even if that means oil prices go up because we embargo Venezuela's oil exports. When Venezuelans see that we're serious about Chávez, perhaps their army will do what it should have done a long time ago—send Chávez to Havana on a permanent vacation—and then promptly return to the barracks.

The Settlement: Bearish Bull

NO SENSIBLE INVESTOR SHOULD PUT MUCH STOCK IN THE settlement between major Wall Street firms and government agencies, spearheaded by New York Attorney General Eliot Spitzer. The investment banks' use of analysts to plug IPOs will indeed stop. But we're not going to get more reliable research concerning future stock prices or less volatile markets as a result. What will prevent a late-1990s-style market run-up is the memory of its aftermath. But, over time, memories fade.

In the late 1990s few independent analysts and research reports were warning of an impending crash. We've had investment manias before and, human nature being what it is, we'll have them again. When major new technologies come along that can fundamentally alter the way we live and work, everyone wants in on them. Our sense of what's sensible and what's not can go by the board. Who in 1975 would have believed that a Harvard dropout from Washington state would come up with the essential operating software for something called a personal computer that

would create a market of hundreds of billions of dollars? Who at that time could have conceived of a Bill Gates or a Microsoft?

In a hothouse environment of innovation, anything can look like the next Microsoft. The innovations are often real, but not everyone makes money from them. Wal-Mart (and its stockholders) has probably made more money from computers (in managing its stores' inventories) than has any high-tech manufacturer.

Whenever there's a crash, people are understandably angry. There were abuses and instances of outright fraud. Wrongdoers should be punished. But we must not permit regulators and government agencies to confuse honest business mistakes with fraud. Risk-taking is essential to free enterprise, to achieving a higher standard of living. It would be much worse if entrepreneurs and executives became paralyzed by the fear of lawsuits.

Large companies can summon the resources to cope with last summer's hastily passed Sarbanes-Oxley Act. (The SEC already has spewed out 3,000 pages of new accounting regulations.) Will

Sarbanes-Oxley inhibit venture capitalists from funding new companies because they fear they won't eventually be able to take them public? If that happens, innovation will suffer.

Yes, the economy will improve. Stocks have risen from last year's lows, and will rise more. But they won't reach the levels of even 16 months ago until liability fears can be allayed.

We Shall Not Fry

NEW STUDIES ARE BLASTING THE DIRE PROPHECIES OF GLOBAL-warming worriers that the Earth is going to hell in a handbasket, or perhaps more accurately, in an automobile. Alarmists cite the growing level of carbon dioxide (CO₂) in the atmosphere as the chief villain causing the rise in temperatures. Curb CO₂ emissions—mainly from cars, power stations and factories—or the Earth will heat up like a greenhouse, they wail.

A team of French-led scientists has made sophisticated analyses of Antarctic ice core samples, some of which date back to an ice age that ended nearly 250,000 years ago. The bottom line: Big changes in temperatures came *before* carbon dioxide levels increased, not *after*. Modern-day Chicken Littles may claim that rising CO₂ emissions will cause the Earth's temperature to rise sharply, but geological history suggests no such thing. In fact, some experts believe we may be entering a new mini ice age.

A team led by researchers from Harvard University examined a number of studies of "climate proxies," such as tree rings and ice cores, to map the weather patterns of the past 1,000 years. They concluded that between the 9th and 14th centuries much of the Earth experienced warmer temperatures than it does today. In the 14th

century, however, the Little Ice Age set in. The rising temperatures of the last century are really part of the recovery from that event.

If this isn't enough to make one take weather-related alarms with the proverbial grain of salt, consider the way the Intergovernmental Panel on Climate Change (IPCC) calculates future levels of man-made CO₂. According to the IPCC, CO₂ emissions will increase catastrophically, raising temperatures to dangerous levels. However, in order for this wild forecast to add up, the IPCC had to make bizarre projections for countries' future economic growth. It projects, for instance, that such economic powerhouses as North Korea and Libya will have higher per capita incomes than the U.S. by the end of this century! Only through such ridiculous assumptions can these "scientists" come up with their horrific predictions for the next 100 years.

Weather patterns have been changing since the Earth came into existence. Some scientists believe that changes in the Earth's weather might be affected more by sunspots or slight shifts in our planet's orbit than by anything we humans do. What is clear is how precious little we actually know about the whys and wherefores of our ever-changing climate.



Greening France

MANY AMERICANS ANGRY AT FRANCE ARE UNDERTAKING THEIR own boycotts of French products or are refusing to visit France itself. A more effective form of revenge would be to entice France's best brains to immigrate to America. Why not set up a special green card program for several thousand skilled French men and women, especially in the area of high tech. Sure, at the moment our economy is sluggish. That's temporary, and, despite the burst bubble, technology is showing new signs of life.

Such a program would not engage us in a trade war. But President Jacques Chirac and his conniving confederates would be fittingly outraged that we were luring away France's best and brightest. What could they do about it? Few Americans would want to live in overtaxed, overregulated France. It certainly wouldn't do Chirac's image any good if he tried to erect a French Berlin Wall to prevent ambitious, able, energetic French citizens wishing to pursue better opportunities from coming over here.

RESTAURANTS: GO, CONSIDER, STOP

Edible enlightenment from our eatery expert Tom Jones and colleagues Patrick Cooke and Monie Begley, as well as brothers Bob, Kip and Tim.

● **Nellie's**—146 West Houston St., at MacDougal St. (Tel.: 212-375-1727). Wonderful Italian-inspired fare. Try the crab cakes with wasabi rémoulade, the baby spinach salad with Gorgonzola and dried cranberries, the beef bresaola Asiago and black olive grilled pizza or the wild mushroom ravioli with white truffle sauce. The desserts are an eyeful to look at and bliss to eat.

● **Café Pierre**—The Pierre hotel, 2 East 61st St. (Tel.: 212-940-8195). A formal place that harks back to another time. This is a restaurant in the grand European style from a tradition that does not understand words like understated or minimalist.

The service is top-notch; the food, exquisitely presented, is traditional. Among the best: a sublime butternut squash soup, a rich and marvelous spring pea soup, a perfect pan-seared foie gras, and impeccable lamb. For dessert: apple galette.

● **Old Homestead**—56 Ninth Ave., between 14th and 15th streets (Tel.: 212-242-9040). Although the neighborhood has become chic, this place remains as it always has been—a funky, noisy, good-guy steak house serving supersize drinks, supersize steaks and possibly the biggest shrimp in the world. The hamburgers? They, too, are oversized. And really superb. **F**

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*The main part of intellectual education is not the acquisition of facts
but learning how to make facts live.*

—OLIVER WENDELL HOLMES JR.

Meddling with Chávez Having survived a strike by his opposition, [Venezuelan President Hugo] Chávez has proclaimed 2003 the “year of the offensive”; so far he has taken steps to bring the economy under state control, eliminate independent media and decapitate the opposition. One of the strike’s three top leaders has been arrested, while another has gone into hiding. Even more disturbing have been the unexplained murders of three dissident soldiers and an anti-Chávez protester, and the explosion of bombs outside the Colombian and Spanish embassies. Government officials have denied responsibility, but these acts, too, followed Mr. Chávez’s words: his labeling of dissident officers as “traitors” and his attacks on Colombia and Spain for “meddling.” Without more meddling, and soon, Venezuela will likely see the collapse of what was once one of Latin America’s richest economies and strongest democracies.

—Washington Post

Room to Grow Without creative personalities able to think and judge independently, the upward development of society is as unthinkable as the development of the individual personality without the nourishing soil of the community.

—ALBERT EINSTEIN

Tax Creep(s) Like old age, tax complexity has been creeping up on us.

- Today, taxpayers must wade through 126 pages of instructions for the standard 1040 form, more than triple the number in 1975.
- The current 1040A “short” form has double the number of lines that appeared on the 1945 version of the standard 1040 tax return. Its 85-page instruction booklet now tops the “long”

Form 1040 instructions published just seven years ago.

- The IRS prints at least 1,101 publications, forms and instructions, which contain 16,339 pages, up from 943 documents with 12,933 pages just two years ago.
- The average fee for tax preparation at H&R Block was \$112.42 through Mar. 15 of this year, up 9.4% over last year. Since 1980 the H&R Block fee has increased 311%, or 77% after adjusting for inflation.
- Americans toil for about 6.42 billion hours on tax forms and recordkeeping, accounting for 84% of the federal government’s entire paperwork burden.

Our Tax Code is a house of cards that could soon collapse under the weight of its own complexity. Our economy, our civil liberties and our already complicated lives would be much better off with fundamental tax reform.

—DAVID L. KEATING, National Taxpayers Union

Everything in Moderation After three days men grow weary, of a wench, a guest, and weather rainy.

—BENJAMIN FRANKLIN

Forests Exhale A paper [in the science journal, *Nature*, last year] provided some evidence from the Amazon that rain forests like those in Asia may breathe out as much carbon dioxide—the dreaded “greenhouse gas”—as they absorb. In the Brazilian and NASA-funded study, scientists found the Amazon to be in carbon equilibrium—its wetlands produce as much carbon dioxide as its dry regions absorb. Though it’s often said that deforestation adds 1.6 billion tons of carbon into the atmosphere each year, the Amazon wetlands themselves pump out 500 million tons—from rotting leaves and wood.

To be sure, the report does not prove or disprove the utility of rain forests as carbon sinks. Instead, it is one more piece of evidence that the ecosystem is more complex than many would have us believe. Far be it that anyone should say let’s cut down the forests. But when we’re being asked to spend billions to fight global warming, it’s worth watching out for all available information that adds to the debate.

—Far Eastern Economic Review

Manner of Speaking Harry Barnes, a Labour member of Britain’s Parliament, wants to ban American words from British airwaves. If Barnes’ bill passes, announcers and actors will have to say *lift* instead of *elevator*, *chips* instead of *fries*, and *bum* instead of *butt*. And in a sign that the Queen’s English isn’t totally immune to foreign influence, the bill would mandate *courgette* instead of *zucchini* and *aubergine* instead of *eggplant*.

—CHARLES OLIVER, Reason Online **F**

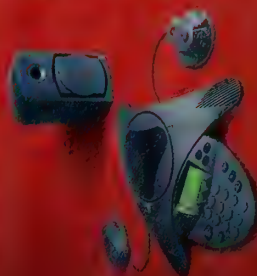


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THE BROADMOOR: MOUNTAIN MAJESTY

Spencer Penrose embodied the Western spirit that captivated America in the early 20th century. He had made a fortune in the gold mines of Cripple Creek and he knew first-hand the lure of the snowcapped Rockies. When Penrose embarked on his grandest work – The Broadmoor – he built his beloved mountains into the very fabric of the resort. He took out advertisements promoting the region's natural beauty and brisk mountain climate to Eastern industrialists starved for wide-open spaces. He funded construction of a road up nearby Pike's Peak. And he captured the imaginations of travelers all over the globe.

At its opening in 1918, the Donald Ross-designed Broadmoor Golf Club was the highest championship course in the world. Penrose hired renowned professional Jim Barnes to travel the country, touting the spectacular layout. Together, Penrose and Barnes painted a vivid picture of the ancient game set against a dramatic backdrop of the Rocky Mountains.

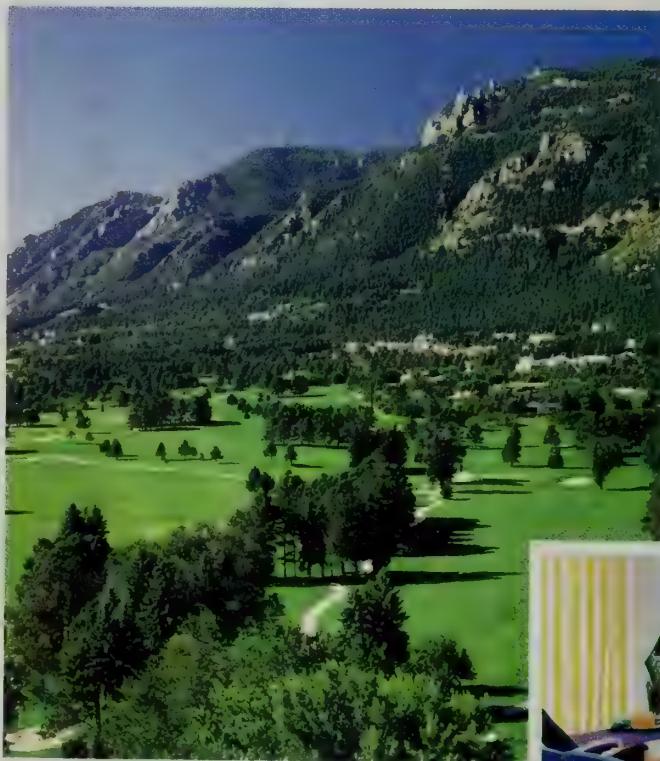
Today, the resort remains the

world's original and premier mountain golf destination. Ross proclaimed The Broadmoor to be his most challenging and finest work. Traversing the foothills of Colorado's Front Range, his design blended breathtaking mountain views with rolling fairways and difficult putting surfaces. Some four decades

extreme mountain experience can sample the work of Arnold Palmer and Ed Seay at the South Course. Opened in 1978, this layout climbs high onto the rocky face of Cheyenne Mountain. This is modern mountain golf in its most challenging form. Recent landslides have shortened the South Course

from 18 to nine holes, a further testament to its rugged nature.

Guests of The Broadmoor continue to savor the resort's proximity to America's most beloved alpine landscape. Whether it's a glimpse of Pike's Peak bathed in sunrise hues, a ride on the cog railway to the summit of the grand peak, a short hike on



later, Robert Trent Jones added his own signature to The Broadmoor, constructing 18 new holes on land set even higher in the foothills. The efforts of these two famed architects are now blended into the East and West Courses, each incorporating holes by both designers and each the site of historic competitions and achievements.

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the resort grounds after a cool summer shower, or, of course, a round of golf on the storied fairways of America's first mountain golf destination, a visit to The Broadmoor will leave you touched by the beauty and nature of the Rockies. And always yearning to return.

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by Caspar W. Weinberger, CHAIRMAN



Don't Sell Japan or South Korea Short

WE RECENTLY VISITED JAPAN AND SOUTH KOREA TO MARK THE launch of our new *Forbes Korea* magazine.*

Japan is a strong, enormously capable country, but it has lost far too much of its confidence and appetite for risk-taking. We talked with many business, government and academic leaders, and the message from each was similar: Consumers won't buy, preferring to save at impossibly low interest rates; investors won't invest in risk-taking ventures, preferring to wait on the sidelines; and many companies are moving production offshore where manufacturing costs are cheaper. Unfortunately, the prevailing thought seems to be that if things are bad now, they could get worse, so the best course is to wait.

The major banks, burdened with vast loads of nonperforming loans, are increasingly averse to granting loans to new job-producing businesses. Occasionally a bank is persuaded to let a big borrower slip into bankruptcy, but more often the government subsidies and guarantees encourage a process whereby bad loans become even bigger.

The government is committed to securing fundamental fiscal and structural reforms, but this is a difficult task. Prime Minister Junichiro Koizumi, who still retains substantial popularity with voters, is not completely in charge of his ruling Liberal Democratic Party. Traditionally the LDP is afraid of losing the support of any part of its coalition of farmers, small companies and senior voters, so no matter how appealing and necessary Mr. Koizumi's structural reforms may sound to outsiders, the chances of their being enacted are slim. Reform, however, is much needed. There is a definite downward trend in Japan: deflation; a falling GDP; falling wages; the Nikkei fell 27.7% in the year to Mar. 31; retail prices have been dropping for years; and real estate prices have plummeted nearly 80% since 1990. The government's primary efforts to stop the decline—huge spending programs for more and more public works, highways, bridges and items we would label “pork”—have resulted in an ever-increasing government deficit. The central bank has cut interest rates to nearly 0%, yet entrepreneurs, already deep in debt, are afraid to borrow more. Tax cuts would help far more than increased government spending.

Working through the Industrial Revitalization Corporation, Toshihiko Fukui, the new governor of the central bank, hopes to buy some of the banks' nonperforming loans. Some companies could be nursed back to health and then could secure new loans, which would stimulate the economy. The SRC could also encourage mergers, some even with foreign companies. In the past, loans were backed mostly by land and buildings, but as the value of these fixed assets has been falling

for more than 12 years, new collateral is needed.

Many of Japan's companies are doing well. Oriental Land, for instance, Tokyo Disneyland's local parent, is very successful. Its parks had nearly 25 million visitors during the fiscal year ending Mar. 31.

Sony's news is mixed. By concentrating on its enormous internal strengths—videogames, music, films and televisions, as well as its unrivaled design in handheld devices and variants of the personal computer—Sony reported record sales and considerable profits in its third quarter. However, it posted lower than expected profits for the fiscal year.

NTT DoCoMo's i-mode mobile text service (providing e-mail and Internet access) is a marvel of design and capability. While subscriber sales have slowed because of strong worldwide competition, the service still is bought by millions.

Other companies, such as Brother and Seiko Epson, continue to put out ingenious designs. Brother's new sewing machine and its new Multi-Function Center (a single unit that includes a color printer, fax, copier and scanner) are good examples. And Epson's magnificent color printers, which use the latest in ink technology, are in demand.



ASIMO—Honda's and Japan's innovative technology have produced a very effective (and pleasant) robot.

Nearby South Korea

South Korea's economy grew 6% last year. Its companies continue to produce high-quality goods that enjoy worldwide sales. For example,

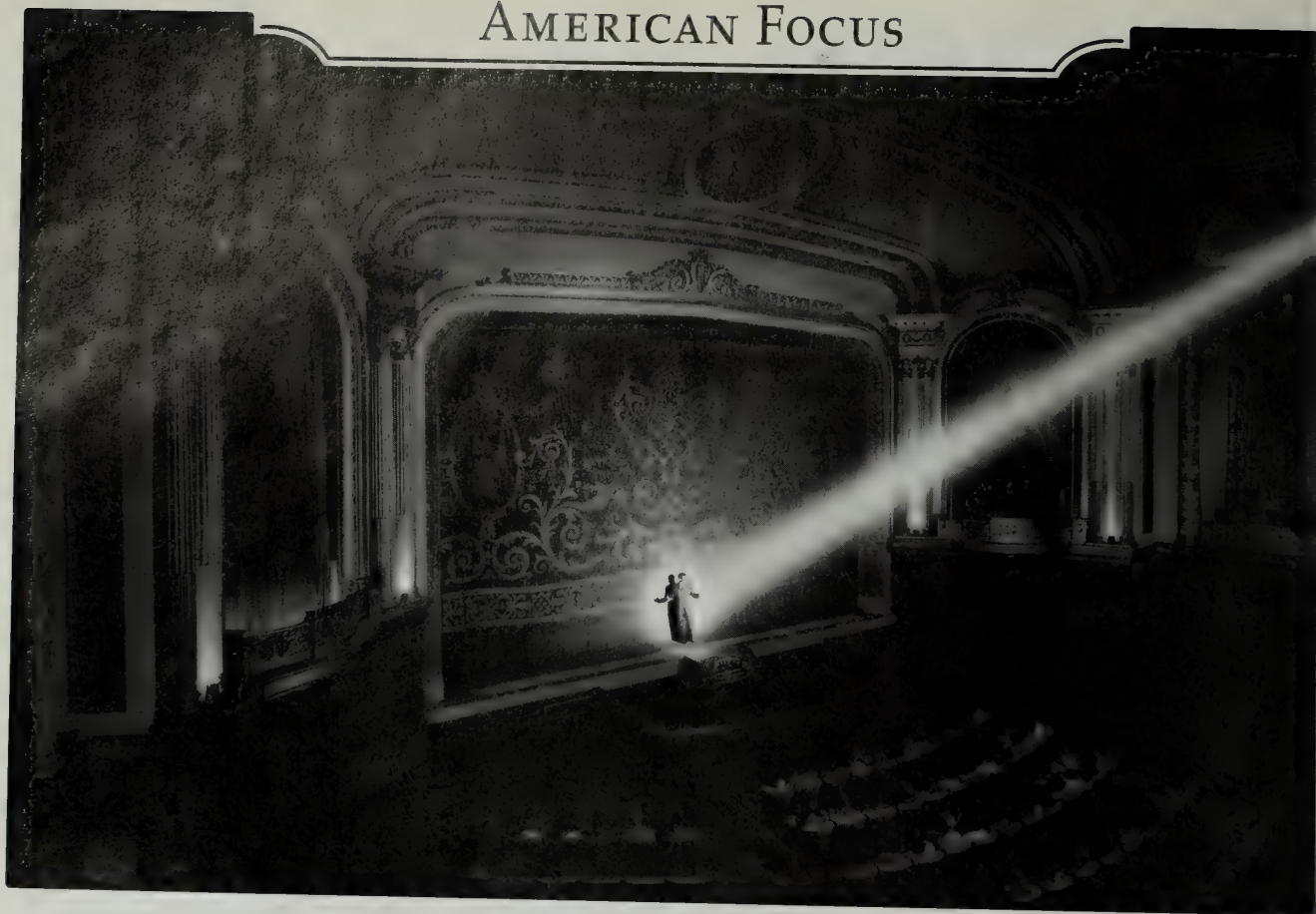
Samsung Electronics (the world's only profitable major memory-chip manufacturer) produces a wide range of electronic consumer products, including a new portable DVD player that's certain to be a hit. Other successful companies include Ssangyong Engineering & Construction, Korean Air, Asiana Airlines and our new *Forbes Korea* partner, JoongAng Ilbo, to name a few.

But there has been a lot of uncertainty in South Korea. The SARS epidemic is bad news for all. Even before the epidemic's outbreak South Korea was experiencing steep falls in the stock market, and there was concern for the safety of investments. Much of the prevailing uncertainty can be attributed to the instability of North Korea and the eagerness of the South's government to overlook every evidence of bad behavior by the North. There are welcome signs that changes in policy are in the works.

As in Japan, the skills and vigor of South Korea's people and the country's companies are the keys to a future as bright and promising as its past. Don't sell either of these countries short. **F**

*Because of *FORBES'* production schedule, I must put off until my next column expressing my enormous admiration for the historic victory U.S. and coalition troops won in Iraq.

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**AMERICAN
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Investment Manager



You Gotta Like

Solectron (SLR). Yeah, it's a gamble at \$3.29, but somebody's going to grab this stock cheap, so why not you? The company, a contract manufacturer of electronic devices, has a 26-year track record of solid performance and a top list of customers that includes IBM, Hewlett-Packard and Olympus. Why is it so cheap? Solectron pigged out on debt during the boom, and The Street has been unforgiving of its recent (there could be more) writeoffs. Still, Solectron's cash flow is good: \$270 million a quarter. The ratios are dear to Benjamin Graham's flinty heart. Price-to-earnings is 0.22 and price-to-book is 0.59. A lofty current ratio of 2.19 shows Solectron has cash enough to handle a storm or two.

The Daily Telegraph (www.telegraph.co.uk). This rollicking newspaper is more proof that in Britain (as well as in the U.S.) right-wingers have all the fun. I fell in love with Conrad Black's newspaper in 1998—for its sportswriting, of all things. Britain's soccer team was on its way to yet another World Cup choke, this time aided by star David Beckham's early disqualification. The *Telegraph* ran a photo of Beckham's nemesis, a tall Dutch referee with a goofy overbite, along with these words (best enjoyed if you read it out loud with Prince Charles-like languor):

"BECKHAM SENT OFF

BY LAUGHING GIRAFFE"

During the Iraq war and its aftermath, the *Telegraph* broke the story of George Galloway (the oily, war-protesting Labour MP who supposedly was on Saddam Hussein's payroll—something Galloway has vigorously denied). It also uncovered documents proving the Saddam-al Qaeda connection.

Wall Street Meat: Jack Grubman, Frank Quattrone, Mary Meeker, Henry Blodget and me. The funniest book about Wall Street since Michael Lewis's *Liar's Poker*. *Wall Street Meat's* author, Andy Kessler, once ran a hedge fund, Velocity Capital, named the country's third-best performer in 1999 by *Barron's*. Kessler was a Cornell science nerd and Bell Labs researcher who somehow got a job as a chip analyst despite turning up at the interview in a brown leisure suit. His stablemate at PaineWebber happened to be a fat-mouthed telecom analyst, Jack Grubman, who at that time was exaggerating his sexual exploits just the way he later would pump up the profit outlook for AT&T and WorldCom. At Morgan Stanley, Kessler worked with dealmaker Frank Quattrone and analyst Mary Meeker, who was nicknamed Heatseeker for her trendy picks. *Wall Street Meat* is a page-turner, easily consumed in one New York-to-San Francisco plane ride. You'll laugh so hard you'll risk arrest by an air marshal.

Sportsinjurybulletin.com. One generally asks for trouble when one Web surfs for medical advice. But this site is the real deal. If you like to stay active but find—usually during those damnable 40s—that your body breaks down or takes longer to recover

from injury, you can spend a small fortune searching for answers. This site is a great shortcut. My own chronic injury owes to a misspent youth trying to be the next Steve Prefontaine. All that running—70-mile weeks in my teens and 20s—caught up with me a few years ago. Chronic inflammation of my right lower leg had me hobbling like Chester on *Gunsmoke*. Megadollars and hours in rehab later, the leg is improved, though not 100%. Then one day this spring I came across www.sportsinjurybulletin.com/archive/1055-anti-inflammatory.htm. A Danish sports-injury doctor claims that a mixture of antioxidant vitamins E and C, the omega fatty acids 3 and 6, and the minerals selenium and zinc form an anti-inflammatory cocktail more potent than prescription NSAIDs. I tried it and saw good results in a week. Yippee for the Web! It was supposed to make our lives better. It has.

• **Reno and Las Vegas.** The worst nightmare for California Governor Gray Davis is a low-tax neighbor. The exodus to Reno and Vegas began years ago. It's certain to grow into a stampede if (make that when) Governor Davis punts responsibility for his state's \$37 billion budget deficit onto California wage-earners, investors and business owners—something the Democrat vows he will do.

I like Reno's chances in this scenario. Life hasn't been easy for Nevada's second banana, so it tries harder. Home to the University of Nevada, which places more emphasis on science than on basketball, and situated a mere 45 minutes by car from lovely Lake Tahoe (the same by plane from San Francisco), affordable Reno is well positioned for a run of good luck. Buy land in the southwest quadrant.

• **Pony League baseball.** My son is midway through his first year of coach-pitched ball. The rules call for five-inning games, with each half-inning stopped at five runs. In reality this means a lot of 22-22 games. These 6- and 7-year-old boys and girls knock the snot out of the ball—with five strikes they get their chances—but outs in the field are infrequent, and always accidents.

One fine Saturday afternoon my son, at third base, closed his eyes, stuck out his glove and caught a pop fly. By stepping on third he could have completed the rare unassisted double play. So stunned at catching the ball was Peter, he forgot. In the bottom of the fifth, score tied at 21 (we guessed, because we never keep score officially), our team's top slugger came up, uncharacteristically waved at the first two pitches and then wet his pants. He looked down, looked up and started to cry. His dad came in and scooped him up. The game was over; time for soda pop and pizza. Memo to dads: No business deal in the world is worth missing this.

F



Visit Rich Karlgaard's home page at www.forbes.com/karlgaard or e-mail him at publisher@forbes.com.

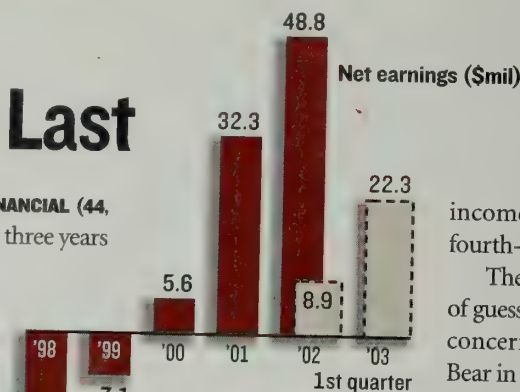
For more financial stats, go to www.forbes.com/makers.

Supernovas Don't Last

AS REAL ESTATE INVESTMENT TRUSTS GO, **NOVASTAR FINANCIAL (44, NFI)** is as hot as they come. The stock is up 14-fold from three years ago. Earnings look stellar: a 150% rise to \$22 million, or \$2.07 a share, on revenue of \$52 million in the first quarter. Like all REITs, this one pays out most of its earnings as a dividend—\$2.25 in the first quarter.

But this nova may be burning out. The company makes its money issuing mortgages (primarily to weak borrowers who pay higher-than-normal interest rates) and then packaging the loans into securities for sale to fixed-income investors. Despite raising its overhead spending in the first quarter to 22% ahead of the previous quarter's level, the seven-year-old firm saw loan originations grow 3% to \$1.1 billion.

Like other mortgage originators this one uses an accounting method that permits it to count unhatched chickens. Instead of recognizing profits from the securitizations over the life of the home loans, NovaStar books all the anticipated profits up front. The firm's gain-on-sale earnings—net of losses on related derivative transactions—accounted for a huge 84% of its first-quarter



income; that's up from 2002 fourth-quarter 60%.

There's a worrisome amount of guesswork to these gains, chief concerning mortgage default. Bear in mind that NovaStar's borrowers have poor credit histories.

Delinquencies are rising quickly in NovaStar's largest securitized loan pools. The amounts that are 90-plus days delinquent or have foreclosed rose 81% in the first quarter compared with the fourth, to \$86.6 million. That's a big deal for a company that earned only \$22 million in the quarter. NovaStar is exposed to losses on the loans that go bad, which are used as collateral for the securitizations. And as Chief Executive Scott Hartman says about 60% of its mortgages now carry mortgage insurance, versus 80% in 2002; losses could come back to haunt it in the form of higher yields it has to offer on the securities.

The company says it gets an edge with computer software that screens out the weakest borrowers. Can't every lender make a similar boast? Short the stock, cover at \$20. —Elizabeth MacDonald

Big Box, Big Bucks

OFFERING EVERYTHING FROM GROCERIES to appliances to gasoline at cut rates,

BJ'S WHOLESALE CLUB (15, BJ) has expanded nicely. The chain charges members \$40 yearly to shop and is now the third-largest warehouse club behind Costco and Wal-Mart-owned Sam's Club.

But despite a good fiscal year, ending in February,

with net income rising 60% to \$131 million on \$5.7 billion in sales, the company lowered 2003 earnings estimates because of feistier competition. And same-store growth has slowed. Result: BJ's share price has dropped two-thirds from a year ago.

Hedge fund Elliott Management, though, recently built a 5% position in the stock. Some on Wall Street think the earnings warnings are being overdone by

new Chief Executive Michael T. Wedge so he can exceed expectations. BJ's has a debt-free balance sheet and a trailing price/earnings multiple of just 7.5. Suitors are rumored to be interested, like Wal-Mart, which could then expand big-time into the Northeast. —Megan E. Mulligan

Oddball Offerings

NICHE PRODUCTS SUCH AS JARS AND LIDS for home food preservation are in the grab bag of items sold by **JARDEN (29, JAH)**. Farm families are loyal to its home canning line, selling under the Ball, Kerr and

Bernardin names. The company also sells plastic containers and metal coin blanks to the U.S. and foreign mints.

Recently Jarden paid \$90 million for bankrupt Diamond Brands, maker of such things as toothpicks. Last year Jarden's acquisitions boosted sales 21% to \$368 million, while net income was a record \$36

million versus a loss of \$85 million. While the stock is up 45% since November William Chappell of SunTrust Robinson Humphrey calls Jarden a bargain at 11 times trailing. —Christopher Helman

New Energy

ENRON'S IMPLOSION DAMAGED POWER producers ranging from Calpine to Dynegy. But there will be survivors. Christopher Ellinghaus, an energy analyst at Williams Capital Group, thinks **AES (6, AES)** is well on its way to restoring stability and profits.

After a moneylosing 2002, AES swung to a first-quarter profit of \$73 million on \$2.2 billion in revenue. It's doing a good job whittling down its daunting \$15.5 billion in debt, primarily through asset sales. Ellinghaus expects AES to post profits of 46 cents per share this year and 70 cents in 2004.

—Daniel Kruger





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BY THEODORE DALRYMPLE, A PSEUDONYM FOR A DOCTOR WHO WORKS IN A BRITISH INNER-CITY HOSPITAL AND IN A PRISON, CONTRIBUTES TO THE *SPECTATOR* IN LONDON AND TO THE MANHATTAN INSTITUTE'S *CITY JOURNAL*.

Prisons Are Good

The inmate population in the U.S. has surpassed 2 million for the first time. Hear! Hear!

THERE IS NO FINER INVESTMENT, SAID WINSTON CHURCHILL, than putting milk into babies. The second-best investment is putting criminals into prison. It may not bring much in the way of happiness, but it certainly prevents a lot of misery.

To judge by the statistics, America is investing very sensibly in prisons. As one might expect, the *New York Times* has expressed unease that the prison population of the U.S. recently exceeded 2 million for the first time, but from the other side of the Atlantic this appears to be a sign of good health and self-confidence rather than of malaise, weakness and injustice. Unlike Europe, America still has the strength of mind and character to deal with antisocial wrongdoing in a serious and consistent fashion. By contrast we in Europe have all but surrendered to the worst elements in our societies.

The surrender has been most complete in Britain, which is now the most crime-ridden country in the Western world (though France and Holland are not far behind). With the single—admittedly important—exception of murder, Britons are now far more likely to be victims of crime than are Americans: Our robbery and burglary rates are much higher than America's, and crime in Britain is far less concentrated in urban ghettos than it is in the U.S. No Briton ever returns home nowadays without wondering whether he has been burgled.

The change from good order to lawlessness in Britain has been startling both in its extent and its swiftness. Robberies in England and Wales rose, from an already very high level, by 27% between 2001 and 2002. Moreover, on average, the seriousness of the crimes reported has increased greatly.

True, our rate of imprisonment is now higher than it has ever been before, at 135 per 100,000 population. (The U.S. figure is 686 per 100,000.) The fact that we have more prisoners than ever before, at a time of unprecedented levels of crime, is taken by commentators to prove that imprisonment does not work. But even these tenderhearted souls could not

possibly believe that if all our prisoners were released without the possibility of ever being reimprisoned, the crime rate would not rise.

From 1931 to 1991 the number of prisoners in England and Wales rose from 11,000 to 46,000. But the number of crimes recorded per prisoner rose much more steeply, from 15 to 115.

demonstrating that the odds of a malefactor's being sent to prison lengthened considerably.

Those who deny the efficacy of prison are rather coy about the alternatives. And only their willful lack of familiarity with the quotidian acts of evil perpetrated in the society that surrounds them permits them to retain what they believe to be their generously merciful and understanding attitude. When I describe to them the cases that I see and hear about daily in my medical practice and ask them what they think the appropriate punishment would be, they always reply "life imprisonment." They offer this answer without realizing that it implies that our prisons would be vastly more populous than they are, so frequently committed are the



"Unlike Europe, America still has the strength of mind and character to deal with antisocial wrongdoing in a serious and consistent fashion."

kinds of crimes I have described.

Like all sensible people, they are appalled to hear that three youths who robbed a shop, one of them attempting to strangle the shop assistant while the others filled their pockets, received only a warning (that is to say, a polite request not to do it again) from the police; or that a man who stalked a woman, issuing threats by telephone to kill her and who eventually attacked her in the street, kicking, biting and threatening to do worse next time, likewise received only a meaningless warning.

According to a recent British government survey, 26% of female crime victims were subsequently threatened with further violence if they either went to the police or gave testimony.

America has much to learn from what has happened in Britain and elsewhere in Europe. It need have no shame about its high rate of imprisonment.



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APRIL 16, 2002

Cheez Whiz Vs. Brand X



KRAFT FOODS HAS HAD A TOUGH YEAR since Co-chief Executive Betsy D. Holden graced our cover. We said Kraft's size and ubiquity were propelling the Northfield, Ill.-based foodmaker ahead of its smaller competitors. But in a weak economy consumers move away from big brands that cost more than lesser-known alternatives. Kraft's stock has tumbled 22% since our story, to a recent \$31. Other problems: Rising commodity prices forced wholesale prices on cookies and crackers up by 3%. Add to that higher pension and employee health care costs.

There were bits of good news in April. Wall Street had fretted that Kraft would be on the hook for the \$12 billion court-ordered

bond owed by parent Altria Group. Now Altria says Kraft won't foot the bill for any tobacco litigation costs. As a result of reduced restructuring charges Kraft announced a 22% jump in profits for the first quarter to \$848 million. Revenue rose 3% to \$7.36 billion. But the cheese division, the biggest contributor to Kraft's bottom line, reported falling volumes from the year-earlier quarter.

—Dirk Smillie

DECEMBER 23, 2002

Blame the Auditor

WE WONDERED WHY EDWARD SHOEN, CHIEF OF U-HAUL INTERNATIONAL parent Amerco, put ownership of a so-called special-purpose entity in the hands of his brother, Mark. Now the Shoen brothers say their auditor made them do it. A \$2.5 billion suit filed by Amerco in April blames PricewaterhouseCoopers for dreaming up the idea in the mid-1990s. The purpose: The entity would finance the construction of storage facilities next to U-Haul rental centers without increasing Amerco's debt. The result: bogus financial statements. The suit also charges that PwC acted recklessly when it decided last year that the entity would suddenly have to be consolidated on Amerco's books, leading to a credit crunch that caused Amerco to default on \$1.2 billion of debt. PwC says the lawsuit is hooey and that Amerco was primarily responsible for the accuracy of its own books. Amerco has hired a new chief financial officer and announced a pending deal with a Wells Fargo & Co. unit for an \$866 million credit line that should keep it out of bankruptcy court.

—Nathan Vardi

APRIL 14, 2003

Hanger Management

LAST MONTH WE SHONE A LIGHT ON THE U.S. INTERNATIONAL TRADE Commission, a little-known government bureaucracy that recommends tariffs and quotas on imported goods. On Apr. 25, in an unexpected move, President Bush rejected stiff new tariffs the ITC wanted to impose on wire coat hangers from China. Three U.S. hangermakers had protested the dastardly Chinese tactic of lowering prices to attract customers.

—Ira Carmahan

Flashbacks

85 YEARS AGO IN FORBES/AUGUST 24, 1918

Deep Pockets

After all, the rich have their uses. At least they pay the bulk of the money that keeps the country going. No less than nine tenths of the personal income taxes collected in 1916 came from incomes of more than \$25,000. The income taxes paid by "labor" were less than one-tenth of one per cent. Even those having incomes of \$5,000 and less contributed considerably less than two per cent of the grand total of \$173 million collected. Our ten richest citizens paid no less than \$13 million. Almost three-fourths of the total tax came from the pockets of those enjoying incomes of \$100,000 a year or more.

According to the IRS, 31% of the \$981 billion in personal income taxes collected in 2000 were paid by people with incomes of more than \$500,000 (the equivalent of \$30,000 in 1916).

20 YEARS AGO IN FORBES/DECEMBER 5, 1983

When FedEx Won't Do

High-powered executives, financiers, rock stars and assorted wheeler-dealers regularly travel at Mach 2. But those \$2,000 one-way tickets on the Concorde are also handed to lowly bag men and bag ladies—couriers personally shepherding baggage across the Atlantic. What kind of baggage warrants a \$2,000 ticket? Checks. Eight 66-pound bags at Heathrow carry about \$20 million in checks, which will earn \$5,000 a day interest if promptly cleared and deposited. Had these bags gone air freight rather than as personal baggage they could have languished in Customs for days. In April British Airways and Air France announced they would ground their Concorde fleets.

10 YEARS AGO IN FORBES/MARCH 15, 1993



Greenspan Spun

Some people thought Fed Chairman Alan Greenspan looked a bit uncomfortable when he was seated right next to Hillary Clinton during her husband's first speech to Congress. Nevertheless, the seating arrangement was symbolic and bodes well for long-term

interest rates. Reagan and Bush may have appointed Greenspan, but he's getting from the Clintonites what he has long insisted on getting: a serious move toward cutting the \$325 billion federal budget deficit.

Alan Greenspan said in late April that he would accept President Bush's invitation to serve a fifth term as Fed chairman.



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Press Lord Pressed

LORD CONRAD BLACK'S newspaper empire has suffered in the ad recession, but he's cut enough side deals to get along majestically. BY ROBERT LENZN

NEWSPAPER MAGNATE CONRAD BLACK, A.K.A. LORD Black of Crossharbour, is scrambling to fend off a battle royal at the annual meeting of Hollinger International, his global newspaper chain. The gathering, to be held on May 22 at New York's posh Metropolitan Club, could get spirited, at least if Black takes questions from shareholder Tweedy, Browne Co.

Tweedy, a money manager with \$120 million in the Class A shares of Hollinger International, says the share price (recently \$9.40) has been depressed by Black's habit of feathering his nest at public shareholders' expense. "I think the newspaper assets are worth \$14 to \$20 a share net after debt," says principal Christopher Browne. "But the only way we're going to see that is if he sells or stops taking the funds or someone gets rid of him."

"Gets rid of him?" Good luck. Black's 67% ownership in

Ravelston Corp., a privately held company, gives him control of a 78% stake in Hollinger Inc., a publicly traded Canadian holding company with real estate and other investments. Hollinger, in turn, owns 32% of the equity and 73% of the voting control of Hollinger International, the Big Board media company that owns the newspapers. There is also a hefty dose of debt financing in this chain. Thus does Black, with a mere \$13 million of his own equity money in the till, control \$2 billion in media assets. The assets are impressive: Black's 129 newspapers include the *Chicago Sun-Times*, the fifth-largest paper in the U.S.; the *Jerusalem Post*, with a circulation of 110,000; and the London *Daily Telegraph*, which has 40% of the market for national broadsheet newspapers in the U.K.

The newspaper industry has been soft, and Hollinger International's revenue last year shrank 12% to \$1 billion. Poor ad

les and circulation declines, along with investment and currency losses, resulted in \$552 million in losses in the past two years. Hollinger Inc.'s credit rating has been reduced to a junk CCC by Standard & Poor's, and Hollinger International has cut its quarterly dividend from 11 cents to 5.

But if the public shareholders have suffered, Black and his companies have not. Last year Black took compensation of \$9.3 million combined from his two public companies, including the value of unexercised options. On that score he is ahead of New York Times Co. publisher Arthur Sulzberger Jr., who runs a firm three times the size (and has raised his dividend).

There are other goodies. In 2000 Black sold Hollinger International's Canadian newspapers to CanWest Global Communications Corp., a Canadian television broadcaster, for \$1.8 billion. CanWest paid \$28 million on top of that to Black and three senior executives, and another \$25 million to Ravelston. The amounts were described as noncompete payments, keeping Black from starting up or buying new papers in certain towns for five years. Ravelston and Black took in another \$21 million in noncompete fees from later sales of other Canadian papers.

Jan Loeb and Steven Shin, analysts at Jefferies & Co., argue that the \$74 million in noncompete money should have gone to Hollinger shareholders. Black tells *FORBES*, "It isn't anyone's business how I make my personal money."

Ravelston also gets \$4 million a year in advisory fees from CanWest. That's justified, says Black, because CanWest execs are less skilled at running newspapers. Israel Asper, CanWest's chairman and a onetime billionaire, insists that he needs Black's acumen in, among other things, "buying newsprint at a discount."

A huge chunk of Black's \$9.3 million in salary comes from the \$23 million Hollinger International transferred last year to Ravelston for advice and financial services. Loeb and Shin think those services are worth \$5 million to \$7 million a year. Meanwhile Hollinger Inc. is having trouble servicing its \$190 million in preferred stock and debt. So last year Ravelston infused it with—a coincidence—\$23 million.

Maybe the board of directors could crack down on these payments? Directors include such illuminati as Henry Kissinger; former Illinois Governor James R. Thompson; financier Henry Kravis' wife, Marie-Josée Kravis; former ambassador to Germany Richard Burt; and Richard Perle, the controversial member of the Defense Policy Board.

Hollinger's compensation committee has two members, Thompson and Burt, and it met just once last year. The board itself met only four times because the three-person executive committee (which includes Black) exercises all the power and authority of the board. Kissinger deigned to attend only 25% of his meetings.

Black says he is very attentive to matters of corporate governance. He has put a new director, Gordon Paris, a former Toronto Dominion banker, on the audit committee to investigate all pay arrangements. He has vowed to simplify the pyramid of holdings by merging Ravelston with Hollinger Inc.

Christopher Browne is not bowled over. He says Tweedy may be able to compel Black to stop shoveling money from one hand to the other.

What Did They Know?

Eliot Spitzer hit Wall Street with a \$1.4 billion fine over bad stock research, but he might want to take a look at the Adelphia bankruptcy for a whole new class of possible culprits.

BY LEIGH GALLAGHER

ADELPHIA COMMUNICATIONS IS ALREADY POISED to go down as one of the largest investor frauds in history. But if the legal teams representing debt and equity holders in the bankruptcy case have their way, it may also go down as the single largest lender liability claim in history.

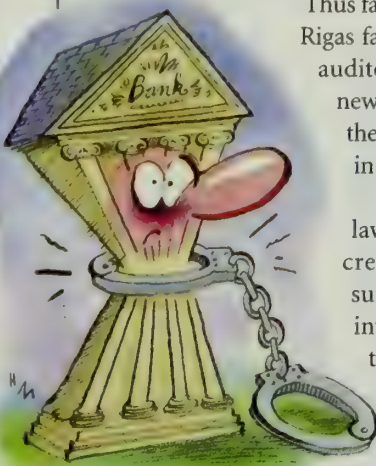
Here's a refresher: On Mar. 27, 2002, during an otherwise normal conference call announcing the cable operator's fourth-quarter and 2001 year-end results, Adelphia casually revealed that the company was a cosigner for \$2.3 billion in credit that had been tapped by the controlling Rigas family, a figure that later grew to \$3.1 billion.

The revelation stunned investors and triggered Adelphia's rapid descent into financial hell. By June the stock fell to 12 cents. The company filed for bankruptcy, the Rigases were arrested on securities fraud charges, and the Department of Justice and the SEC filed separate criminal and civil actions.

Thus far, the focus has centered on the Rigas family, Adelphia's board and its auditors, Deloitte & Touche, but a new culprit is starting to emerge: the banks that lent the \$3.1 billion in off-balance-sheet debt.

There are strong hints that a lawsuit on behalf of unsecured creditors will be filed before summer's end, alleging a fraud involving the agents on each of the three co-borrowing agreements—Wachovia, Bank of America and BMO Bank of Montreal—as well as what could be 50 banks in the syn-

dicates that bought pieces of the loans. The complaint will likely argue that these banks should have known that their money was going to line the Rigases' pockets and ask that the banks lose their seniority in the bankruptcy process. What most steams the bondholders is that the Rigases were using the more senior credit line to buy back Adelphia shares, fooling the bondholders into thinking the cable company's balance sheet was improving. But investors didn't know where the money was coming from until it was too late. "It's like someone cutting in line in front of you for the bath-



room and never coming out," says one Adelphia bond investor. A second committee, representing stockholders, is also conducting an investigation and may file its own complaint.

If the suit is successful, the investors would get the \$3 billion in bank debt moved to a position in line alongside, or even behind, general creditors. Last August both committees failed in efforts to get a federal bankruptcy court in Manhattan to freeze the banks' interest payments, but did get the banks to agree to return what could be hundreds of millions of dollars in interest if a court were to find them liable.

"In Enron you needed to be a financial engineer to figure out what people were trying to do. The reason why this case is so compelling is that there's nothing fancy about it. This is just \$3 billion sucked out by insiders without disclosure by anybody, with the banks funding the illegal business," says David M. Fried-



John J. Rigas, founder of Adelphia Communications Corp., and his son Michael Rigas, former executive vice president, leave Federal Court in New York, Apr. 10, 2003.

man, the bankruptcy specialist who represents the committee of unsecured creditors.

A separate group of fraud claims may be brought against Citigroup and Bank of America for their roles in underwriting several of Adelphia's frequent and fee-rich securities offerings while participating in the syndicates that ran the co-borrowing agreements. At issue is whether the commercial lenders at Citigroup and Bank of America mentioned the loans to the investment banking group, whose prospectuses made no men-

tion of the off-balance-sheet debt. "At some point you can argue that the investment banking division has an obligation to check with its commercial banking division," postulates John C. Coffee, professor of securities law at Columbia University.

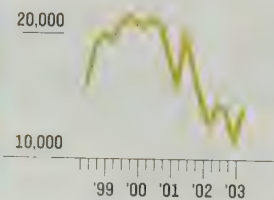
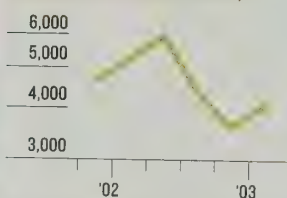
All the banks cited here either decline comment or say that the fraud claims against them are totally meritless.

OUT WITH THE OLD!



Retro Fatigue

(sales since production started)



The trouble with selling nostalgic cars that look like toys is that they sell like toys: euphoria followed by boredom. Volkswagen discovered this with its New Beetle, and so did Chrysler, to a lesser degree, with its PT Cruiser. Now Ford Motor is the latest carmaker to suffer from the market's fickle retro tastes. Just 20 months into the production run of the current Thunderbird, Ford announced last month that it would scrap it in a few years. (See related column, p. 97.)

The Thunderbird's sales, which are running 22% below last year's levels, tanked even more quickly than the New Beetle's or the PT's. Both those cars sustained strong sales for two years before fading. In contrast, Volkswagen's Golf enjoyed its best sales year during its fourth full year on the market, and the Toyota Corolla has logged five years of stable sales.

Ford hopes to reverse the retro curse with next year's Mustang, which resembles the 1967 model. "There's no comparison between an authentic vehicle like a Mustang and a fraudulent would-be like a PT Cruiser," says Ford design chief J Mays, who also designed the New Beetle when he was at Volkswagen. A Chrysler spokesman says the PT Cruiser's greater functionality has supported sales. Given the Mustang's hallowed history, it stands a good chance of being a hit—at first. But if sales cool dramatically after a year or two, Ford may notice that Toyota and Honda aren't raking in billions in profits every year by selling updates of old hits. Fond memories, it seems, are better viewed in a photo album.

—By John Turettini

LONGEVITY

[ANOTHER REASON PSEG HAS WALL STREET'S ATTENTION]

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Crash!

Hong Kong was having an existential crisis anyway. SARS just accelerated the problem.

BY ROBYN MEREDITH

IT IS PAINFULLY VISIBLE HOW MUCH SEVERE ACUTE respiratory syndrome has paralyzed Asia's most Westernized city. Retail sales are down 80% to 90% in Hong Kong, restaurants and their suppliers are going bust, hotels have occupancy rates in single digits and Cathay Pacific Airways is flying 7,000 passengers a day, down 87% from a year ago.

What is less visible is the trouble running beneath the surface: Hong Kong has ever less reason for being.

For decades the city was an outpost of capitalism at the edge of China's vast communist territory. Into its tiny space of 684 square miles it sucked a whole nation's worth of manufacturing orders. Before those jobs began migrating to Mainland China, the city had 943,000 workers sewing clothes, molding plastic toys and making other things. But now that Mainland China has opened up, who needs Hong Kong and its high wages (\$1,000 a month for unskilled manufacturing work)? Wal-Mart can just as easily get its DVD players assembled across the border in Guangdong province, where workers flock to the factory gates for \$135 a month.

Hong Kong's next role was as a depot. Last year 19.1 million containers were loaded onto ships leaving its port, which charges the highest handling fees in the world. The city's port is an efficient, technological marvel, but it now has competition from the rest of China. Just 20 miles away in Shenzhen, a port bristles with cranes and charges 25% less; 765 miles away in Shanghai, fees are 75% lower than in Hong Kong.

There's more to the former British colony than manufacturing and shipping: It's a financial center. When communist China began opening to capitalism, Hong Kong was the port of entry for capital. A Western or Japanese investor would get a play on the Mainland economy by buying shares in a Hong Kong conglomerate that owned Chinese factories. Hong Kong still plays that role, but it's less vital now. Shanghai and

Shenzhen have stock exchanges. The Mainland is booming, so investors are overlooking its lack of sophisticated property rights freedom of speech and rule of law. Western banks and multinationals can pour capital into China without making Hong Kong a way station.

These trends, slow but inexorable, were hurting Hong Kong even before the coronavirus landed in the Metropole Hotel in Hong Kong's prime tourist district. The speculative property market began its crash with the Asian Financial Crisis. Since then housing prices have fallen 65%—a 2,500-square-foot apartment overlooking the South China Sea from Hong Kong's glamorous Peak fetches just \$1.9 million now, down from \$2.6 million. Rents have fallen even faster: The same apartment now rents for \$6,400 a month, down from \$12,825 a month.

Chances are SARS will not gravely damage China's export economy. Wage differentials are just too powerful to send Wal-Mart's buyers back to American factories, and there's no reason to think the virus can survive on a carton shipped across the sea. But the epidemic could do a lot of damage to Hong

Kong's middleman role. So long as the disease scares people out of Asian airports, Web conferencing software can take Hong Kong's place.

"SARS ends five years of denial in Hong Kong," says Andy Xie, a managing director for Morgan Stanley in Hong Kong. Mortgage lending is at its lowest level in a decade and banks are bracing for more bankruptcies.

Pessimists predicted that the 1997 handover of Hong Kong from Britain to China would wreck the city. Wrong for five years, the pessimists may yet be proved right, but not in the way they expected. They thought Beijing would smother Hong Kong's vibrant entrepreneurialism. The greater threat may be that SARS has given business another reason to bypass high-cost Hong Kong.

Setting Sun

Hong Kong's stock market, like the rest of the city's prospects, has been slipping and has nearly reached its post-Asia-crisis nadir.



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Bruised Fruit

A shopping list for Apple.

Last month's reports that Apple Chief Steven Jobs was mulling a purchase of Vivendi's music business caused considerable head-scratching: What was he thinking? A modest suggestion: Maybe he thinks stocking up on unrelated assets is more fun than

managing a computer manufacturer with dwindling market share. But if Apple's \$4.5 billion of cash is burning a hole in Jobs' pocket, he doesn't need to spend it all on one impulse item.

ASSET / RATIONALE / PRICE

GLOBAL CROSSING / U.S. officials are concerned about plans to sell a big stake in the bankrupt fiber outfit to Asian investors. The famously persuasive Jobs could surely convince them that he doesn't pose a security concern. / Currently \$250 million, but perhaps there's a "made in America" discount.

MUSICLAND/SAM GOODY STORES / Electronics retailer Best Buy picked an odd time to invest in music retail when it bought the 1,300-store chain in 2001. Now the stores are back on the block. / Make an offer: Best Buy paid \$696 million for the stores, and they've already written down \$300 million on the deal.

FELCOR HOTELS / That long-predicted hospitality rebound still hasn't shown up, so the REIT is parcelling off 33 of its hotels, many of them around Dallas. Buy an iPod, get two nights in Texas? / \$1.2 billion.

ARTISAN ENTERTAINMENT / The people who brought you *The Blair Witch Project* wanted to go public in 2001 but didn't. Now they just want to get out altogether. Upside: A *Dirty Dancing* sequel due next year. Downside: The *Blair Witch* sequel. / A reported \$100 million, but could be less.

SEARS CREDIT AND FINANCIAL / The retailer's credit cards generated \$1.5 billion in operating income last year, but the debt business is a scary proposition in a down economy. A perfect opportunity for a visionary executive. / As with Vivendi's music operation, \$6 billion would probably do it.

Divine Debacle

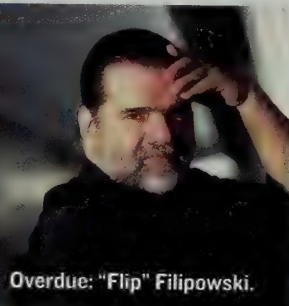
A dot-com meltdown in Chicago is burning holes in the shelves of thousands of public and corporate libraries | BY DAVID ARMSTRONG

THE RIPPLE EFFECTS OF THE DOT-COM BUST NEVER SEEM TO STOP. THE LATEST casualty: thousands of public, college and corporate libraries, including those of the National Institutes of Health, 3M and Boston University, now out up to \$7 million for periodical subscriptions. Behind the debacle is Chicago-based Divine, a onetime much-hyped Internet incubator founded in 1999 by software entrepreneur Andrew (Flip) Filipowski, with backing from Chicago icons like William

Wrigley Jr. and Michael Jordan.

What happened? Last year the libraries dutifully sent their subscription-renewal money to Rowecom, a subscription service agent that collates orders from libraries and places them with thousands of publishers, including giants like Reed Elsevier and John Wiley & Sons. Divine bought Rowecom in 2001 after it tired of funding new companies and decided to grow instead by acquisition.

But the publishers never got the money, and in December some smaller ones started to cut off subscriptions.



Overdue: "Flip" Filipowski.

Where did the cash go? A lawsuit filed by Rowecom's bankruptcy trustees charges that Divine looted Rowecom by transferring \$73.7 million collected from the libraries into Divine's accounts. When the publishers' bills came due, Divine announced it was abandoning the subscription business and a month later put Rowecom into bankruptcy. Divine claims it sank more money into Rowecom in the two years it owned it than it took out.

The publishers and libraries will have a tough time recovering their money. Divine, with liabilities of \$108 million, filed for bankruptcy protection in March. "We'll survive," says Anita Baird, head of acquisitions at Ohio University, "but we obviously will be using a new subscription service."

A Sugar Low

When the sugar industry feels threatened, sweetness goes right out the door. In April the politically connected U.S. Sugar Association issued a heavy-handed broadside against the World Health Organization. The United Nations organization was about to issue a report recommending that sugar constitute less than 10% of a healthy diet.

Not content to lobby, the sugar folks threatened the U.S.' \$406 million contribution to WHO. This was a threat to be taken lightly. The industry has what is called "access." (Didn't President Clinton take a call from sugar grower Alfonso Fanjul during one of his meetings with Monica Lewinsky?) Government controls have kept the price of sugar in the U.S. artificially high, costing consumers \$1.9 billion a year, according to a 2000 General Accounting Office report.

Alas, the scare tactics didn't work. In late April WHO and the Food & Agriculture Organization of the UN stuck to their report recommending a 10% limit. Says a UN spokesman contemptuously: "The Sugar Association understands U.S. politicians, but their lack of understanding of international organizations is a major problem."

Andrew Briscoe, president of the Sugar Association, is undaunted. "The WHO report lacks the preponderance of science," he thunders. The American diet now includes 15.7% added sugars, but he says that people can safely tolerate 25%. The \$7 billion sugar industry stands to lose \$2.5 billion a year if Americans decrease their sugar intake to 10%.

Briscoe wants to address a meeting of health ministers this month in Geneva. If he doesn't come with convincing scientific reports, perhaps he can at least provide some nice dessert treats.

—Katarzyna Murawski



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A Pox on Both Houses

You thought plaintiff lawyers couldn't be trusted. Watch what happens when they join forces with the enemy | **BY MARK TATGE**

LENDERS ABUSING CLIENTS' TRUST AND RIPPING OFF MILLIONS of indigent people. Alleged collusion between the victims' lawyers and the defendants. It could be a plot from the pages of John Grisham—but this tale comes from an opinion by U.S. District Judge Elaine E. Bucklo of Chicago. She recently took the highly unusual move of barring a half-dozen plaintiff attorneys from representing the claimants as

opinion by the U.S. Court of Appeals, Seventh Circuit, Prossnitz and Schwartz had lunch with Beneficial's lead attorney, Bur Rublin, at Chicago's Metropolitan Club on Sept. 3, 1997, to discuss settling litigation against Beneficial and H&R Block. Why these attorneys? The Seventh Circuit said Schwartz and Prossnitz didn't have a pending suit against Beneficial or Block. (The attorneys disagree.) They were known in legal circles for fumbling a similar case against tax preparer Jackson Hewitt in which, say court records, a state judge recommended they be fined for bad faith and false representations to a court; before fines could be imposed, the case was settled.

At the infamous lunch, according to the testimony of a lawyer who was present, Rublin threw out a figure of \$24 million or \$25 million. Rublin denies he suggested a number. In any event, he later teamed up with H&R Block to produce the suit, redefining

the class, capping awards at \$15 per claimant and releasing the lenders (who would split settlement costs) of any future liability. The appeals court decision outlines how H&R Block and Beneficial were unlikely to have to pay the full \$25 million: Because they changed jobs and addresses frequently, many potential claimants would be tough to find, and any money left in the fund would revert to the defendants.

A federal judge in Chicago approved the settlement in 2001, but lifted the cap to \$30 per claim. The decision stirred outrage. "It stank like a goat," says Michael B. Hyman, a plaintiff lawyer who in bringing the case before the appeals court argued that if the settlement were allowed to stand, it would encourage defendants to search for "the most ineffectual class lawyers" with whom to negotiate. The appeals court agreed, throwing out the settlement and chastising Schwartz for offering to pay a \$100,000 finders fee to get a

plaintiff to bring the suit.

The case was remanded to the court of Judge Bucklo, who slapped plaintiff lawyers for selling out their clients, noting they did "very little informal discovery, almost none before they had settled the case."

She also cited a Texas case

Plaintiff lawyers sold out their clients, doing "very little discovery before they settled the case."

with a proposed \$311 million settlement for a much smaller class.

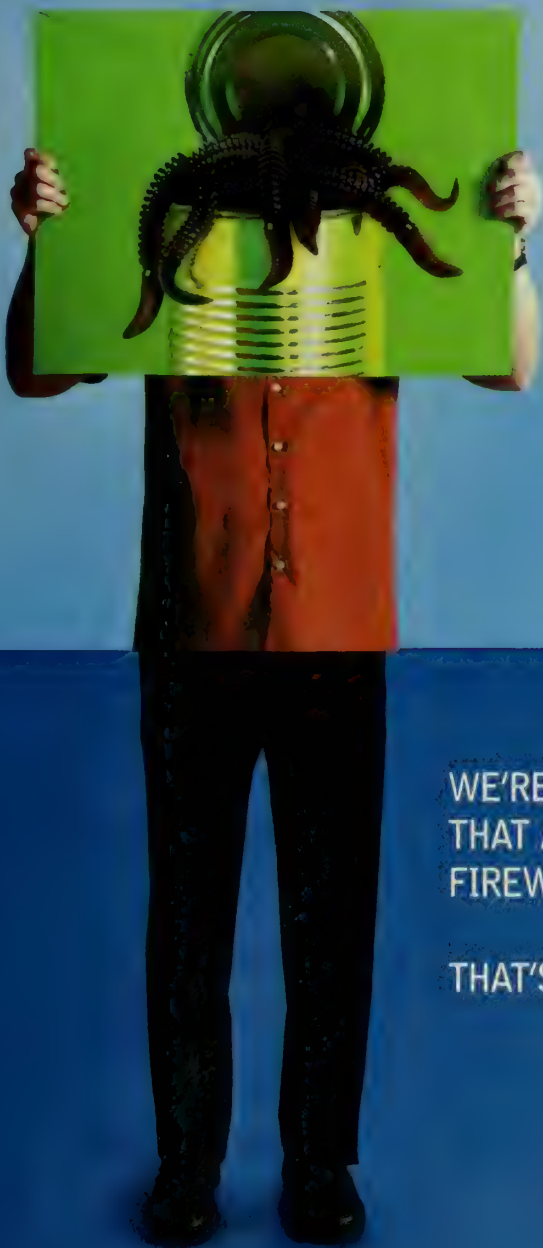
Rublin didn't return calls. "We strongly disagree with the points of Judge Bucklo's decision," says Prossnitz. H&R Block denies any wrongdoing. "My jaw drops to hear that," says spokesman Robert Schneider. "Did we pick the suit? Did we select the plaintiffs' lawyers? We negotiated in good faith." Heaven help Block if it ever loses those rapid-refund loans, since they carry a pretax margin of 60% and accounted for \$57.6 million in pretax profit last year. **F**



a class, calling their work "inadequate." On behalf of a potential class of 17 million plaintiffs, the attorneys were going to settle for \$25 million—and pocket \$4.3 million for themselves. Two of those attorneys, Howard Prossnitz and Francine Schwartz, asked to be reinstated, a motion Bucklo denied May 2.

The case involves a tag-team practice by H&R Block and Household International of making tax-refund anticipation loans, mainly to low-income customers. Block received 15% of the loan to cash the check and split an undisclosed amount of the interest, which ranged from 100% to 800%, with Beneficial National Bank. (Those interest rates were not disclosed, the suits allege, until after the loans were disbursed.) Since 1990 two dozen suits have been launched against H&R Block and Beneficial, alleging that plaintiffs were cheated out of an estimated \$2 billion. The financial institutions have settled at least four cases.

In this particular complaint, they hoped to settle for the price of a Chicago bus ride—\$1.50 per plaintiff. But the judges didn't like the cozy way in which the deal was struck. According to an

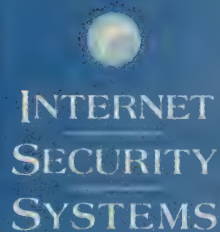


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PIPE DREAM

Could Israel go into the oil business? With Saddam Hussein gone, that prospect for the oil-barren nation has inched closer to reality—slightly. Government officials are talking about resurrecting a 70-year-old pipeline from the oilfields in northern Iraq to Haifa. The 12-to-18-inch pipeline was built in the 1930s by the British, and transported 100,000 bbl. per day. It was shut down when Israel declared independence in 1948.

If the politics don't yet make sense, the economics do. Oil tankers now head around the Arabian Peninsula and through the Suez Canal to get to the Mediterranean. A 400-mile-long pipeline could cut shipping costs from 15% to 40%. One beneficiary would be the billionaire Ofer family, which controls a 26% stake in Israeli refineries that generate \$2.4 billion in annual revenue.

Obstacles abound. Some Iraqi sections are rusted out; in Jordan sections were sold as scrap metal and the country denies interest in rebuilding. Moreover, the Arab world is unlikely to entertain a petition from Israel before there is a Palestinian state—or at least the prospect of one. And how to counteract the suspicion that the pipeline would be part of a Western conspiracy to grab Iraqi crude?

Eyal Ofer isn't holding his breath: "Dreaming is part of life. Reality is something different."

—Michael Freedman



Recon Man

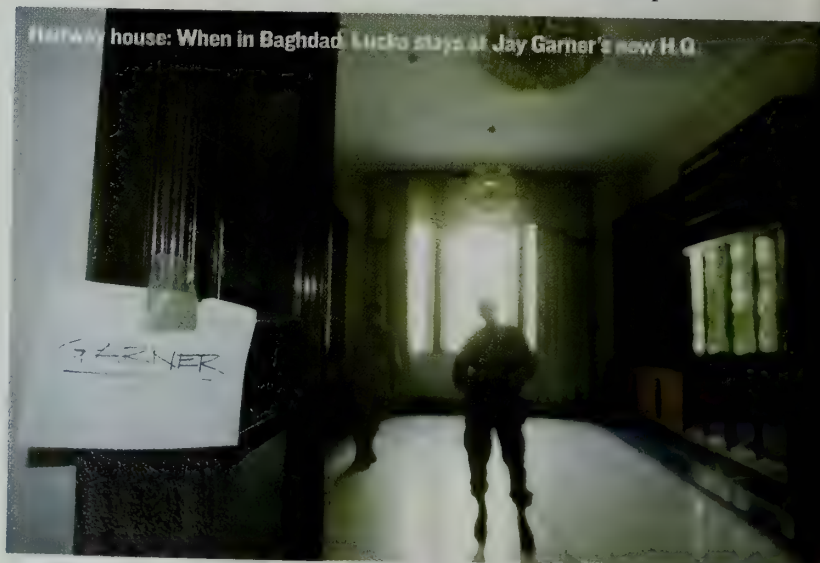
A lot of money and hope are going into the rebuilding of Iraq. Lewis Lucke is the man in the hot seat | BY NATHAN VARDI

WHEN GENERAL JAY GARNER, the first "viceroy" of Iraq, stepped into Baghdad's Republican Palace, he found no running water, no electricity and lots of rubble. Who ya gonna call? A humble Austin, Tex. globetrotter named Lewis Lucke. Garner may have gotten all the press as he pressed flesh with U.S. troops, but it's Lucke's job to turn on the lights. His bed at the palace was a cot he had brought with him from Kuwait. "We were camping, in essence," says the 52-year-old.

And now he's supervising Bechtel Group as it starts to dredge Umm Qasr, Iraq's only seaport, to ready it for matériel to rebuild the country. Lucke is

doring Services of America. At the top of his to-do list: resuscitating a power station in the capital, a bridge in Mosul and water supplies in Basra. Later Lucke will supervise the reconstruction of airports, schools, railroads and highways. Lucke is also overseeing drug and medical-equipment imports and UNICEF efforts to provide a somewhat normal school year for Iraqi kids. "It has been humbling," says Lucke. "However much time you spend planning something like this, being able to put it together on the ground is complex and depends on things that are not in your control."

A career foreign-service officer, Lucke spent 24 years managing AID projects in trouble spots like Mali and



the coordinator for reconstruction, managing a \$2.5 billion project that some expect will inevitably balloon to \$30 billion, if not \$100 billion. As the ranking man on the ground for the U.S. Agency for International Development (AID), his hands are also closest to the pulse strings, since his State Department branch is funding and contracting out much of the work.

He's starting small with 35 government workers and five U.S. contractors, including Bechtel and Seattle's Steve-

Haiti, picking up some Arabic while running the government's \$200 million economic development program in Jordan. He retired right before Sept. 11, but re-upped last November when AID began gearing up for Iraq. Lucke joined Garner's group after its creation in January, surviving the Pentagon's brutal scrutiny (it rejected eight other diplomats the State Department wanted). His biggest concern now is security, which seems to be getting dicier by the day.

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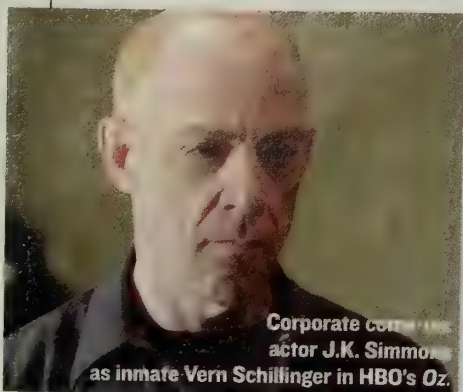
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COMMERCEQUEST, whose software (top price: \$500,000) helps companies meet the new Sarbanes-Oxley corporate compliance law, is sending firms sales kits with DVD copies of the entire first season of the HBO series *Oz*. That's the prison drama depicting unsavory characters behind

bars for doing unsavory things. Tampa, Fla.'s CommerceQuest is run by ex-cop Ulysses Knotts, who helped nab now-executed serial killer Theodore (Ted) Bundy.

—Stephane Fitch

The ABA Should Hire a Lawyer

DISBARRED LAWYER, CONVICTED FELON AND TAX PROTESTER William Drexler has registered the name American Bar Association in Arizona, where he lists an address, and has urged supporters to do the same in other states. His motives are unclear, but Web postings suggest trying to sell the rights back to the ABA, the U.S.' leading lawyer trade group. The Chicago-based ABA said it didn't know its name had been hijacked until *FORBES* called. Weeks later, it still had taken no formal action.

—Janet Novack and William P. Barrett

Get 'Em Coming and Going

IN THE MID-1990S KEVIN T. BURKE HELPED RUN LOS ANGELES-based Franchise Mortgage Acceptance Corp. Its generous low-down-payment loans to franchise restaurateurs sank more than a few and led to massive loan portfolio writeoffs—shortly after he cashed out his own stake. Now, with partner Christopher J. Kelleher, Burke is back, starting Trinity Capital LLC, an investment bank collecting fees for helping overleveraged restaura-

teurs renegotiate their debts. Burke says a few of his old clients have turned up as new clients.

—Phyllis Berman

Their Cups Runneth Over

DART CONTAINER CORP., RUN BY EXPAT STYROFOAM-CUP CZARS Kenneth B. and Robert C. Dart, paid the bulk of the \$4.4 million the Internal Revenue Service sought after the feds said they would seek foreign court orders to get more evidence. That settled a fight over deductibility of \$11.6 million in personal security costs for 1996 and 1997. U.S. Tax Court filings suggest the brothers, noted for their tax litigiousness, had at least \$1.84 billion in assets and \$604 million in income in 1997, mostly from their Cayman Islands investment firm. Last year Dart units paid \$26 million to settle 1994 cases stemming from the brothers' giving up their citizenship.

—J.N.

But Others Might Have an Opinion

A NEW *FINANCIAL ANALYSTS JOURNAL* STUDY SAYS THAT IN THE two-year period when equity markets crashed in 2000 and 2001, stocks most favored by analysts returned -14%, while those least favored earned 26.9%. Professors Brad Barber, Reuven Lehavy, Maureen McNichols and Brett Trueman attribute this partly to better performance by out-of-favor, so-called value stocks over momentum-backed "growth" stocks. For 1986 through 2001, the profs say, analyst picks did add value. The authors decline to opine whether the unwarranted bullishness in 2000 and 2001 was motivated by a desire to attract investment banking business.

New Title: *Chinese Wall*

In late 1999 then-high-flying Merrill Lynch analyst Henry Blodget inked a big Random House contract to write a history entitled *The Internet Revolution*. Planned publication: May 2001. But after the 2000 market crash the book was postponed. Now, while admitting no wrongs, Blodget just agreed to a \$4 million fine to settle allegations he didn't believe all those bullish reports he wrote. Current book status? "We aren't commenting on this," says Jonathan Karp, Blodget's high-powered editor.



More Common Ground With Iraq

The current search for just-looted art in Baghdad recalls valuable paintings in the West stolen and still missing.

—Dirk Smillie

PAINTING	WHERE & WHEN STOLEN	VALUE
"Le Chemin de Saint-Jacques" (1863)	Louvre, Paris, 1998	\$2
"The Concert" (1660)	Gardner Museum, Boston, 1990	80
"The Just Judges" (1470s)	cathedral, Ghent, Belgium, 1934	80
"Landscape With Cow" (1634)	Montreal Museum, 1972	2
"Nativity With Sts. Francis & Anthony" (1609)	chapel, Palermo, Italy, 1969	32
"Portrait of a Woman" (Klimt, 1914)	gallery, Piacenza, Italy, 1997	6
"Portrait of a Young Man" (1600s)	museum, Krakow, Poland, 1945	50
"The Storm on the Sea of Galilee" (1864)	Gardner Museum, Boston, 1990	48

¹ Current estimate, in millions of dollars. Source:

Foundation for Art Research; *Forbes*



Aborted performance:
Vermeer's "The Concert."



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Family Ties

What does Chuck Dolan want out of Cablevision—a dynasty for his son or maximum value for shareholders? It's becoming clear that he can't have both.

BY BRETT PULLEY

AS CABLEVISION SYSTEMS STRUGGLED TO REVIVE itself in recent months, James L. Dolan, chief executive and son of the company founder, occasionally sought solace in the Eyebrow. The small skybox high above the arena floor at Madison Square Garden, in which Cablevision owns a controlling interest, offers a crow's nest view of the losing ways of two teams the company also owns, hockey's New York Rangers and basketball's New York Knicks. Of the many things worrying him—\$7.7 billion in debt, a collapsed stock price and a nasty fight with the New York Yankees' new sports channel—Dolan would obsess over an irksome detail: Often, the freshness date on the diet Coke in the skybox had expired.

This would launch Jimmy, as he is widely known (though around the office he goes by Jim), into a furious tirade upbraiding his staff. Dolan makes no apology for his fits of temper. Even small oversights "make my blood boil a little," he says. "I just want the operation to work well."

Some things haven't worked so well lately at Bethpage, N.Y.-based Cablevision, the nation's sixth-largest cable operator, with 3 million subscribers and \$4 billion in annual revenue. Dolan, now 88, took over as chief executive in 1995, succeeding his revered and famous father, Charles F. Dolan, who is 76 and remains chairman. Soon after, the Dolans pursued a bold but flawed strategy to expand beyond cable and turn Cablevision into an integrated en-



Patriarch Chuck Dolan.

tertainment giant ready for the digital future. "We got way ahead of ourselves," the son concedes.

And as they streamlined their cable systems to focus on the New York City area, they fell behind competitors, who were merging to become giants. In 1995 Cablevision was the nation's sixth-largest operator, and the number one player, TCI, was four times as large; although Cablevision today is still number six, its biggest rival, Comcast, has seven times as many subscribers. That presents Chuck Dolan with a difficult

choice: Should he bequeath a dynasty to his scion and successor, Jimmy, or focus on how best to enrich his shareholders?

Jimmy Dolan, prodded by the scary slide that sent Cablevision shares below \$5 last August, has begun dismantling much of what he helped build, aiming to reduce debt to cut interest costs and increase liquidity. Since last summer he laid off 3,000 workers, more than 10% of the total, and additional cutbacks are expected. Cablevision recently sold its chain of electronics stores, The Wiz, after running up \$200 million in losses on it. The company just sold its 80% stake in the Bravo cable channel to NBC for \$1 billion. Also on the block: the 57-theater Clearview Cinemas chain, worth an estimated \$135 million, and AMC, the movie channel, valued at an estimated \$1.5 billion.

Wall Street seems to like the idea of dismantling this company. Cablevision shares have quadrupled to \$22 and might fetch an

additional 50%, assuming more assets are sold, says Mario Gabelli, a money manager whose clients hold a 25-million-share stake. Strong first-quarter results were expected this month. Besides the subsidiary that owns the sports teams and the Garden, the main remaining asset is the cable and telecommunications unit, yielding revenue of \$2.4 billion last year and operating income (in the sense of net before depreciation, interest and taxes) of \$935 million. Might the company sell even that core asset? Says Jimmy Dolan: "Everything is for sale—at the right price."

For Jimmy, chopping up the House That Chuck Built would offer the extra benefit of letting him exit the cable industry, where he endures constant unfavorable comparisons with his father. In the late 1960s Chuck Dolan started a hotel-room video service that became Home Box Office. He partnered with Time in the venture, but in 1973 Time bought him out and he countered by paying \$900,000 for a fledgling cable system of 1,500 subscribers that Time owned on New York's Long Island. Admired for his shrewd negotiating and his grand vision, Chuck Dolan built Cablevision into a tight-fisted, scrappy competitor. He's still in the corner office.

Jimmy Dolan inherited his job, a fact the industry never lets him forget. "I think there is a little jealousy around," says New York City Mayor Michael Bloomberg, who dealt with Jimmy in the Yankees spat. The third of six children, Jimmy grew up in Massapequa Park, N.Y., graduated in 1979 from the State University of New York at New Paltz and joined the company right after college. Unlike his father, he has a penchant for the limelight. He recently took to the ice to skate with the Rangers. His lavish wedding last year was held at Donald Trump's Mar-a-Lago estate in Palm Beach and was attended by a corporate A-list that included Sony honcho Howard Stringer and NBC's chief, Robert Wright. An avid guitarist, Dolan (and his band) entertained guests the night before the nuptials.

But does Jimmy Dolan run the show? Says he: "When you want to go to the absolute, ultimate authority in the company, you walk by my office and go down to the end of the hall."

Sometimes the stress of being his father's son boils over. One day in 1998, at a company budget meeting, Jimmy walked in late, scowling and angry, recalls one person present. The late Marc Lustgarten, the vice chairman who tended day-to-day operations while Chuck Dolan built and acquired properties, called on someone to "explain" an issue to Jimmy, who sprang from his chair and slammed his folder shut.

"This is MY meeting!" he yelled. "I don't want anything

explained to me! I don't want anything presented to me! I don't want to be talked to! This is MY MEETING!!" As everyone watched in stunned silence, Dolan stormed out of the room. Lustgarten rolled his eyes and continued the session. Dolan says he can't recall the specific incident, but he unabashedly admits that similar scenes have "probably happened more than once."

This company, though it went public on the Amex in 1986 (it now trades on the NYSE), is still very much a family affair. Insular and secretive, the Dolan clan has just 26% of the company but 76% of shareholder votes. With that unquestioned control comes the kind of nepotism you expect in a private company: At least seven family members hold top jobs inside Cablevision, including Jimmy's two older brothers, Patrick F. Dolan, 51, who heads the company's News 12 operations, and Thomas C. Dolan

50, the chief information officer. Also, Jimmy's new bride, Kristin Dolan, is a longtime employee and currently a vice president.

Today many family members, including Jimmy Dolan and his wife, reside together at a sprawling Long Island waterfront compound. The close family ties shape executive relations. Jimmy demands around-the-clock accountability from his lieutenants and constantly tests their loyalty. One executive who worked closely with Dolan for several years says he was required to make his boss the most important person in his life. Some managers quit and some get fired, including the well-regarded David Checketts, who ran Madison Square Garden and the sports franchises until his ouster in 2001. Executives who have had run-ins with Jimmy have gone to his father to plead for relief. "What do you want me to do? He's my son," is

Broken Up, What's It All Worth?



Cablevision's market cap is \$6.4 billion, but the estimated value of its stake in each of its asset groups adds up to much more.



Cable: \$11,242 mil

Telecom: \$437



AMC and other nonsports programming: \$1,518

Fox Sports Net: \$315

MSG¹: \$476

Clearview Cinemas: \$133

Satellite: \$66

Wireless²: \$638

Total Value: \$14,825 mil

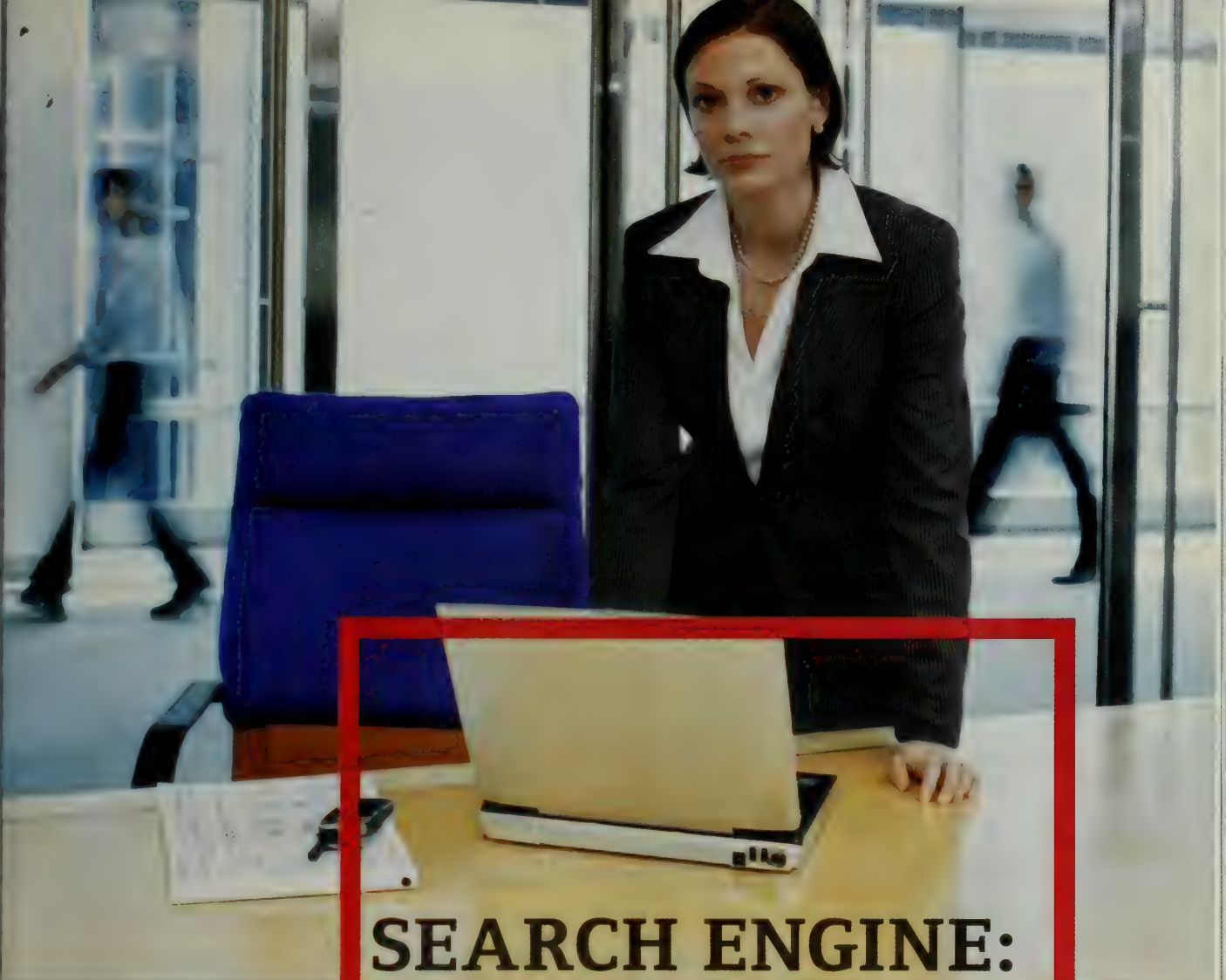
¹Includes New York Rangers, New York Knicks, Madison Square Garden, MSG Network and Radio City Entertainment. ²Pending sale to Verizon Wireless. Source: Williams Capital Equity Research. Compiled by Lesley Kump.

Chuck Dolan's response, says one ex-employee.

Despite his volatile nature, the younger Dolan is known also for his compassion, giving help and a second chance to employees with drug and alcohol problems. Dolan personally relates to such struggles: A decade ago he went into rehab and remains sober today, he says. But his empathetic side gets lost in the bluster.

"There's no doubt that I have detractors.... I've certainly had my share of butting heads," Dolan says. "I'm not hoping everybody checks the bottoms of their Coke cans for the expiration date, but I am hoping that everybody is getting the message: that we are improving this place, and that I'm watching."

But who's watching the Dolans? In recent years they have used company funds to build family-controlled ventures. Cablevision put up \$230 million—most of the capital used to fund Northcoast Communications—but holds just 49.9% of the equity. Northcoast is controlled by Chuck Dolan's nephew, John Dolan.



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Nevertheless, Northcoast in December announced the sale of its spectrum to Verizon Wireless for \$750 million. When the deal closes, Cablevision's share will be \$635 million, for a net gain of \$405 million on its investment.

Other perks include two Gulfstream jets used to transport Dolan family members around the world—this in a company whose properties lie almost entirely in the New York metro area. Jimmy Dolan has used the jets to ferry his yachting crew to competitions, to transport friends to a Las Vegas bachelor party for his brother-in-law, and for other gambling jaunts to various casino towns. The company accounts for use of the aircraft, noting that Jimmy racked up \$425,000 in personal travel over the past three years. But why not just get rid of the jets?

Hewing to the Dolans' insular ways, Cablevision executives are slow to grant media interviews, and even midlevel managers who quit must promise to forgo discussing the company or the Dolans, or lose their severance compensation. After Neil Smith, who was fired in 2000 as president and general manager of the Rangers, was quoted in a sports trade journal last fall criticizing the Dolans' ownership, Cablevision held back \$150,000 he was still owed. "I'm not afraid of the truth, but you don't always get that [from former employees]," Dolan says. "It's better to try and protect the company."

While his dad focuses on the big deals—like getting NBC to pay 23 times operating income for Bravo—Jimmy immerses himself in smaller details. A few years ago, after tough labor talks with the union representing the Rockettes, the famed leggy headliners at Radio City Music Hall (another Cablevision property), the company won the right to remove some of the oldest dancers and was negotiating severance. One aging Rockette wrote a plaintive letter to Jimmy, who raced into Manhattan, met with the union on his own, and agreed to let the senior dancers stay on. Dolan's managers were livid; he says he repaired "acidic" relations with the Rockettes.

Dolan also got intimately involved in the very public fight between Cablevision and YES, the new sports cable channel owned in part by Yankees boss George Steinbrenner. YES wanted Cablevision to collect up to \$2 a month from every subscriber household. Cablevision wanted to charge only the homes that expressly demanded the new channel. The long and rancorous negotiations left Cablevision customers without most Yankees

games last year. Finally this spring the two sides reached a temporary settlement, allowing Cablevision in the near term to avoid some of the fees that it had fought all along. "Cablevision executives put their reputations on the line," says New York City Mayor Bloomberg. "They stand up and take the heat."

Even as the company auctions off some properties, Chuck Dolan has been pushing a plan to start a direct satellite service to take on DirecTV, the market leader now being acquired by Rupert Murdoch's News Corp. It is a starry-eyed dream that Cablevision already has spent \$300 million pursuing. The satellite is to be

launched later this year, but Cablevision would have to spend much more to build out a full network. It may end up bringing on a partner or merely leasing satellite capacity to someone else.

Meantime, Jimmy's focus on improving existing operations is paying off. Having completed a \$4 billion overhaul of its cable systems to go digital, Cablevision is now cutting capital spending 34%, from \$1.1 billion last year to \$725 million this year. Helped by new digital offerings, its average revenue of \$65 a month per household is among the highest in the business. Cablevision's digital video service has 217,000 customers; its high-speed Internet service has 770,000.

Is everything indeed for sale? The Dolans could sell the cable business to AOL Time Warner—the guys who bought Chuck Dolan out of HBO three decades ago. "They want to marry the prettiest girl on the block," his son says. The combination would make sense. The Time Warner

cable systems in the New York City area, says Cablevision's cable president, Thomas M. Rutledge, "are the hole in the doughnut. We pretty much surround them."

AOL Time Warner is planning to take its cable operation public later this year in a share offering. Presumably, it could make an offer to acquire Cablevision's cable systems for stock, protecting the Dolans and other Cablevision shareholders from capital gain taxes. (The Bravo sale was done that way: General Electric paid by surrendering a stake in Cablevision that it owned and handing over GE shares as well, making the transaction tax free.)

Another possibility: Sell the company to a buyer like AOL, but first spin off an entertainment company for Jimmy to run. What's to stop this happy ending to a volatile stock market ride for investors in Cablevision? Only Chuck Dolan—and his affection for cable systems he painstakingly assembled from scratch. **F**

Out of Daddy's Shadow ... James Dolan Speaks His Mind

On The Wiz and Clearview Cinemas

"The theaters have been fine, it's just that the theater business itself has dropped off. But we never got The Wiz to break even.... Maybe we should never have gotten into retail because we didn't have the experience there."

On selling movie channel AMC

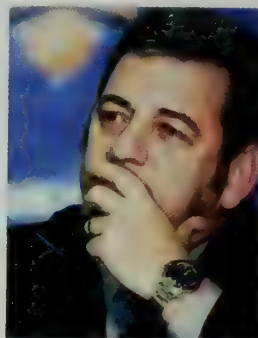
"This could be a good time to monetize that asset and then take those resources and reduce debt and look for other growth opportunities."

On selling Cablevision's heart and soul—the cable systems

"When someone comes up with a price that you think reflects a better maximization of value than what you can do yourself... it's incumbent upon you to sell. That's a pretty big number, though."

On whether a new satellite system will replace cable

"The announced plan so far is to build and launch the satellite. There are a couple of different plans postlaunch.... We haven't really come to a final conclusion on it."





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he top post at AT&T had once been the most prestigious perch in corporate America. But by the time David Dorman took the job six months ago, the obvious question was why anyone in their right mind would want it. Dorman's predecessor, C. Michael Armstrong, had tried to brake the company's decline in long-distance service with \$110 billion in acquisitions that briefly turned AT&T into the country's largest cable system operator. The gambit proved distracting and futile. Chastened by Wall Street, AT&T ended up going through its third major breakup, spinning off its cellular business and—on the same day Dorman assumed command—selling the cable business to Comcast.

What was left of AT&T looked so uninviting that Armstrong jumped to Comcast rather than sticking around. In a further humiliating touch, the company's stately Basking Ridge, N.J. headquarters also was hawked, and executives relocated to smaller digs. Dorman took over a phone business that was shrinking fast, and a global data network in a world glutted with fiber.

It has been a Sisyphean struggle. Last year AT&T's noncable revenue slid 10% for the second year in a row. The company loses 300,000 consumer accounts a month, sending revenue in that critical segment down a jaw-dropping 22%. Cleaving AT&T from its cable business didn't help matters. Instead, the new AT&T shares promptly began a steady slide, losing half their value by April. That left the company's market capitalization at \$11 billion, compared with \$110 billion five years earlier. Only a face-saving 1-for-5 reverse stock split kept the shares with the famous symbol "T" from trading in the \$2 range. These days the shrunken company is frequently mentioned as a bite-size acquisition for one of the powerful local phone companies that AT&T spawned 20 years ago.

"We've been drug through a lot of knotholes," says Dorman, a Georgia native possessed of a thick drawl and droll wit.

And yet amazingly Dorman is showing he just might rescue AT&T from falling into history's dustbin of discarded technology companies. The fall in phone prices and the fiber glut have devastated the industry and left dozens of companies in bankruptcy, with WorldCom (now MCI) as the biggest belly flop. Dorman has turned that to his advantage, launching an ad campaign to play up AT&T's strength and winning \$1.7 billion in busi-

"I'm Just Dave"

Shorn of cellular service and cable systems, AT&T seems destined for history's dustbin. But **DAVID DORMAN**, Ma Bell's folksy new chief, is proving it's too soon to count the old gal out.

BY SCOTT WOOLLEY

PETER MURPHY

ness from its weakened competitors. AT&T has gone from the sixth-largest hauler of Internet traffic in 1998 to the largest. (The tough part: Traffic tripled, but Internet revenue grew just 9%.) The company also won a huge regulatory victory in February that forces its local phone rivals to continue leasing their lines at cut-rate prices to AT&T, which now resells local service to 2.8 million customers, more than double the number of a year ago. As AT&T closed the first quarter, also the first full quarter of Dorman's tenure, it stunned Wall Street by earning a net income of \$571 million. The stock jumped 23% in a day.

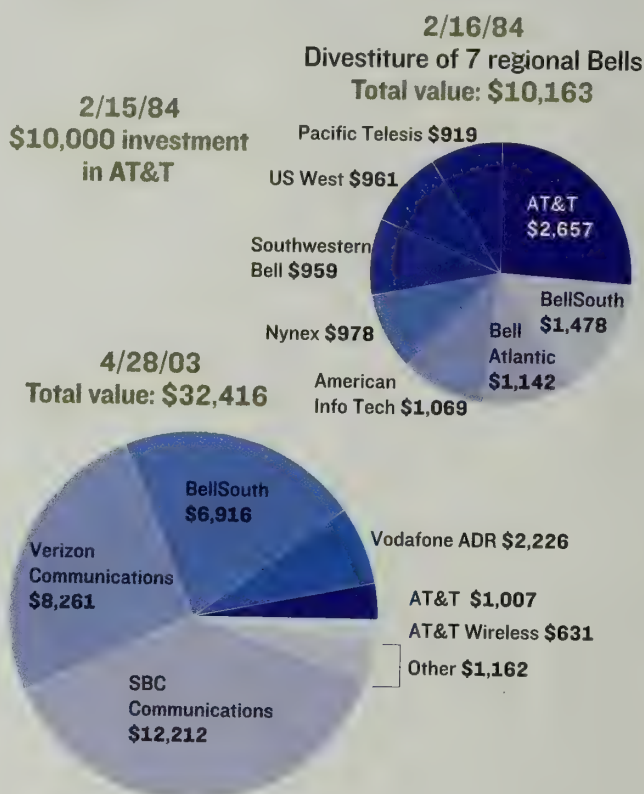
The revival, if it can be sustained, also is a chance for Dorman to revive his reputation as one of the brightest executives in telecom. (Or, as his chief technical officer more grandly puts it, "the best CEO in the last century.") Dorman graduated from Georgia Tech in 1975 and headed to the still-young Sprint, where he became a wunderkind soaring up the ranks. In 1994 he jumped to Pacific Bell where, at age 39, he became the youngest chief ever to run one of the Baby Bells.

Then his streak ended. SBC acquired PacBell, relegating Dorman to an executive vice president's spot reporting to SBC's prickly chief, Edward Whitacre. Three months later he jumped ship—and landed on a sinking one: Pointcast. The once-hot purveyor of "push" technology had never been profitable. Despite frantic dealmaking, Dorman could find no way to change that. After just a year and a half in dot-com land he moved back to telecom and got hired at AT&T in April of 1999, quickly positioning himself to succeed Armstrong.

Then came the retreat and breakup plan. Dorman is determined to use the pounding AT&T has taken to upend the tradition-bound company. "We've got an adaptability from having lived through these difficult periods of time," Dorman says. "Our willingness to accept change is

Shrunken Portion

When Ma Bell was broken up in 1984, the parent dominated its seven offspring; now its remaining babies are pondering a takeover.



Sources: FT Interactive Data via FactSet Research Systems; Forbes.

very different from three years ago."

He still wants to run the world's biggest phone and data network, but more important is the ability to sell much more profitable services and software to the people hooked to that network. Doing this will require a multibillion-dollar overhaul of the AT&T telephone network, the wellspring of all of its historic riches. It must throw out old "circuit-switched" technology in favor of the far cheaper, "packet-switched" design of Internet protocol.

Hossein Eslambolchi, AT&T's tech chief, talks openly—even excitedly—about this huge disruption. AT&T ripped out 48 different legacy network systems last year. This year it will kill another 52. He figures the old network will fade into oblivion by the next decade, and he's doing everything he can to accelerate the ability of the Internet to subsume all forms of telecommunication. Already data traffic is six times greater than voice on AT&T's network. "Internet protocol is like Pacman: It will eat everything in its way," Eslambolchi says.

Dorman talks rapturous about using Internet lines to sneak phone calls around local carriers and avoid access charges—a feat that Armstrong's big cable gambit failed to achieve. Anyone with a cable modem or DSL line could cancel local service and plug a phone into the PC, linking to AT&T.

Vonage, a New Jersey startup, offers such "voice-over-IP" service, but nagging quality problems have scared away major players—most notably cable—from using it. For AT&T, renowned for reliability, taking the lead on IP is a major gamble.

Some Bell executives have feared a switch to IP, but Dorman loves pushing new tech. "Dave started out as a programmer, and he's still a tech at heart," says Richard Nespola, who runs TMNG, a telecom consultancy.

Unlike Armstrong, Dorman doesn't cultivate a regal image. He eats in the employee cafeteria, jokes with them on e-mail

and exudes an aw-shucks image. "There tends to be this aura" around the chief, Dorman says dismissively. "I break through that pretty quickly because I'm just Dave."

His mischievous side helps. He insisted on "servicemarking" the term "underware" for new AT&T software that handles basic computing tasks. Now Dorman delights in composing would-be ad slogans based on PG-rated puns: "Don't leave home without your underware."

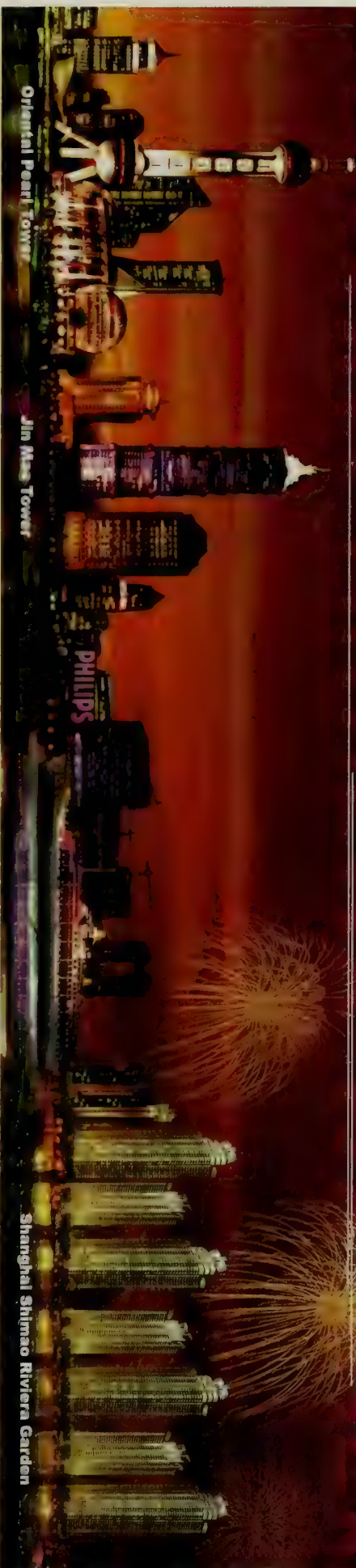
The goal of this "humanizing," he says, is to make sure he gets quick, honest and unfiltered feedback on the multitude of changes going on inside the company.

Despite his recent successes, good ol' Dave still has his back up against the wall. He needs to prove that what's left of AT&T can survive on its own and out of the clutches of SBC, Verizon or BellSouth. The question is whether they will give him the needed time. Dorman has seen what happens when you end up on the short end of a megamerge; he may well experience it yet again.

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THE MAN WHO BROKE THE BACK OF THE COAL UNION doesn't want you to forget it was a tough fight. He keeps a memento behind his desk: A 20-year-old Zenith TV, knobs missing, pierced by a bullet from an angry miner. It was one of 11 fired at him that day. They all missed.

"You can't reach decisions based on popularity," says Donald Blankenship, chief executive of Massey Energy. "Most coal companies have, and they haven't been successful."

The combative head of the nation's sixth-biggest coal company has benefited greatly by facing down the union. But it's not his only enemy. Environmental regulators, who he says are in cahoots with the union, aren't particularly fond of him either. They say he runs some of the industry's dirtiest mines. Now Wall Street has joined the party. The cocky, independent streak that served him so well has led to bad decisions, such as hiring cheaper but inexperienced workers. The result: eight quarters out of the past nine of missed earnings targets. Last year Massey lost \$33 million on revenues of \$1.6 billion. The

generated more than a third of Fluor's operating profits with one-tenth of its revenues.

Blankenship lost out for the top job at Fluor but got his own publicly traded company soon enough: Fluor cut Massey loose in a spinoff in November 2000.

Other coal companies have drifted out West to the Powder River Basin, where the coal lies right at your feet. Blankenship has kept Massey focused stubbornly on Central Appalachia, where a century of digging has left seams mostly too short and thin to mine profitably at current prices. Prices of low-sulfur eastern coal have remained depressed.

Blankenship, making a contrarian bet that the supply of low-sulfur coal will fall even faster than demand as more eastern miners fold up shop, has bought mines in West Virginia. Massey now has a third of Central Appalachia's proven and probable reserves. It mined 44 million tons last year, up from 13 million in 1990. "We're skating where the puck is going to be," says Blankenship.

But he's skating onto thin ice. One of the weaknesses of his

Not King Coal

DON BLANKENSHIP made money while making enemies of union members and environmentalists. Now he's not even making money. Does he have any friends left? **BY BERNARD CONDON**

stock has fallen to \$10.67 from \$28.20 two years ago.

It's an ugly turn of events for Blankenship, a brilliant, gutsy operator with an unfortunate tendency to shoot off his mouth. The 53-year-old made his name in 1985, when Massey insisted on separate negotiations for each of the company's mines. In protest the United Mine Workers of America struck at mines run by Blankenship. But after 15 months, with one worker shot to death, 91 others sent to the hospital, three of Blankenship's armored cars trashed and those 11 bullets fired into his office, the union caved in, agreeing to less featherbedding and less job security. Now Massey's liabilities for future retiree benefits and land reclamation equal \$11 for each ton it ships annually; its three biggest rivals average \$20 a ton.

Blankenship went on to run two other mines for the company, which was subsequently bought by Fluor Corp. He cut their cash costs per ton (costs excluding depreciation) a third or more. He was made Massey's president in 1990.

A quarter of Massey's output is metallurgical coal—high-quality stuff that can be used in steelmaking. Other coal producers started backing out of that market a decade ago, as their customers, the steel companies, suffered from an onslaught of cheap foreign steel. And so Blankenship was able to buy met coal reserves on the cheap. It was a good bet. For several years Massey

strategy: environmental costs. The problem is typified by an accident that occurred one month before the spinoff, an accident that even Blankenship concedes has made Massey a "poster boy" for environmental negligence.

In October 2000 the floor of a 72-acre wastewater reservoir built above an abandoned mine in Kentucky collapsed, sending black sludge through the mine and out into a tributary of the Big Sandy River. The sludge killed fish and plants for 36 miles downstream. Water supplies were shut down in several towns for a month. In total, 230 million gallons spilled out, 20 times the volume of the crude oil from the *Exxon Valdez*. Lawns nearby were covered in as much as 7 feet of muck.

Blankenship says the accident "could have happened to anyone" and partly blames faulty maps of the old mine. But the company had had a similar (though much smaller) accident six years earlier and had been told to seal part of the reservoir. Further, the reservoir had shown signs of leaking right before the accident and Massey failed to report that fact to regulators as required, according to the U.S. Mine Safety & Health Administration. The cleanup has cost \$58 million so far.

In June 2001 a pump at a mine near Madison, W.Va. sprang a leak during the night shift. Instead of shutting it down, workers handed the problem off to a maintenance crew in the morn-

ing. Over the next five hours 30,000 gallons of sludge emptied into Robinson Creek below. The company never told the regulators about the accident; Blankenship says workers made an honest mistake in believing the leak would be contained. Regulators were alerted by residents calling in to report their river had turned black. There were three more illegal discharges into the river over the next two months.

The state's Surface Mine Board, which includes the vice chairman of the state lobbying group for the coal industry, called Massey's actions at Madison "absolutely the worst behavior by any company that any member of this board has ever seen over the decades that this board has been in existence."

Over the two years through 2001 Massey was cited by West Virginia officials for violating regulations 501 times. Its three biggest rivals, mining twice as much coal in the state as Massey, were cited a collective 175 times. Blankenship says Massey is unfairly targeted by regulators. "We don't pay much attention to

Miners quit in droves. The timing was awful. Blankenship had planned to increase Massey coal production for the coming year from 44 million tons to 56 million tons and so needed to add staff. He had to turn to people with little experience. By the end of 2001 half of his 5,000-person staff were new hires.

The company's cost of sales, which includes miner's wages, jumped 11% in 2001 for each ton of coal sold. And, despite the surge in coal prices, Massey's operating margin fell a third, to 13%, that year. Blankenship says his decision to let the old workers go will be vindicated as savings from lower wages pile up.

Massey is trying to show a friendlier face. It recently held a picnic in the state capital, Charleston, for workers and their families, and is donating more money to towns to buy patrol cars and Christmas decorations or to build football fields. The company's board formed a committee in 2001 to monitor environmental compliance. And it has told Blankenship to hold his tongue, too.

Good luck. Asked in a recent radio interview about charges that he allows trucks to be overloaded with coal, he retorted, "Everyone does it." Arch Coal, its biggest rival, says it has long stopped the practice. And Blankenship has kept up his drumbeat against regulators, recently calling the state Department of Environmental Protection "an arm of the union."

Last summer someone in another West Virginia mine punched a hole in an embankment, apparently to keep black water from rising near a piece of equipment needed to continue digging. The water cut a 7-foot-wide path in the hillside below, eventually spilling into a river. Blankenship wrote in a memo to staffers that the hole might have been an act of "sabotage."

But the roots of carelessness run deep. "People make mistakes," says a retired mine superintendent with two decades at Massey. "But when they make them over and over and nothing is done—that sends a message."

Massey now has "show cause" orders pending on 14 of its permits, up from 8 a year earlier.

Adding to the company's problems now is something unrelated to pollution: the size of coal seams. In big patches of coal, longwall machines—using huge rotary blades—are the cheap way to get the coal out. On small lodes they gobble up man-hours in setup time. Which is exactly what happened after Blankenship decided to use longwall machines at several Massey mines ill-suited for them. The blades were moving an average 34 feet a day down coal seams, two-thirds their normal speed, and cash costs for the company spiked from \$24 a ton in 2001 to \$29 a ton last year.

Blankenship has moved the longwall machines to new locations with bigger seams, and says he will get that cash cost down to \$26 this year. He also senses his environmental troubles lifting a bit. Far from making matters worse, he says, his blunt remarks about regulators may have scared them off. "They're not nearly as much on my back as before," he says. That may be wishful thinking.



Protesters rail against dirty shareholder profits. One problem: There aren't any.

the violation count," he says.

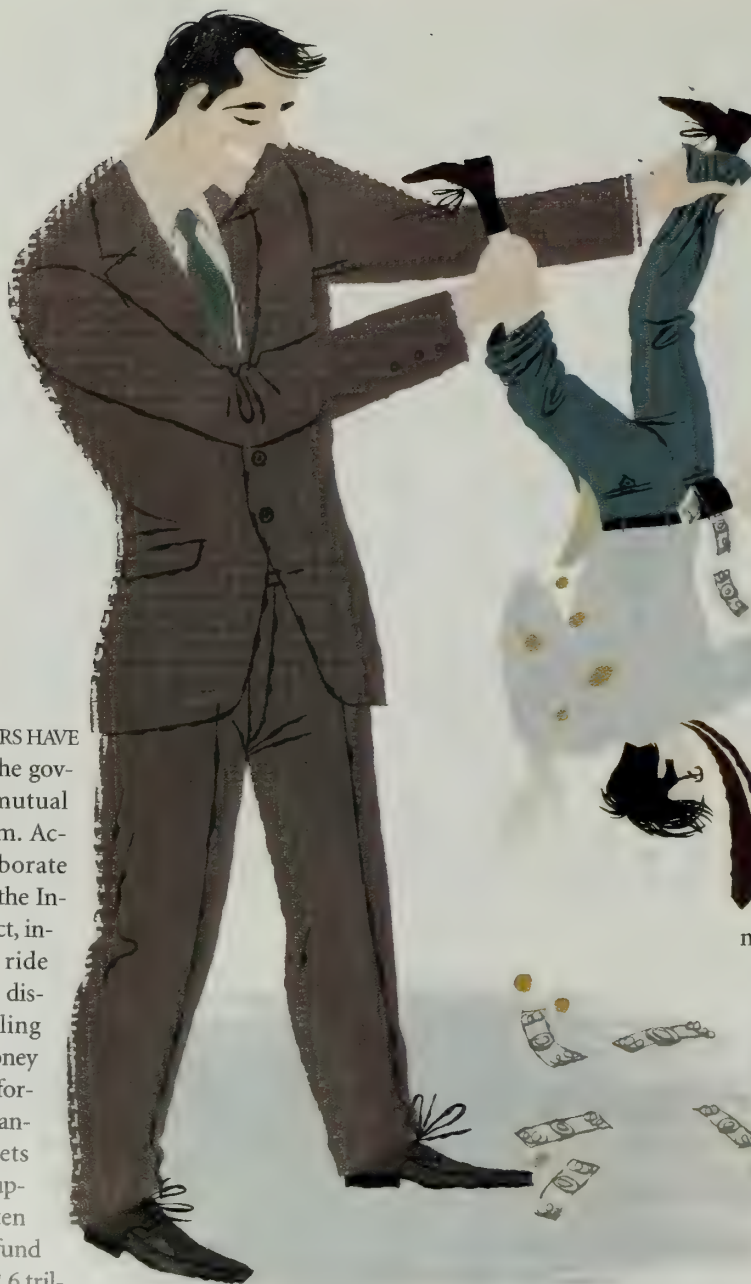
Maybe he should start. Those violations can grow teeth. Regulators, citing a pattern of violations, have been slapping Massey with "show cause" orders: They will suspend, even permanently revoke, permits to mine or process or store coal, if the company doesn't show it has mended its ways. If a permit is revoked, it could prove a "death sentence," in the words of one Massey lawyer, because that would make it difficult for other permits to be issued or old ones renewed. A company spokesperson says that that is an "unlikely" scenario because it would be "suicide" for the state.

Compounding these headaches: a bit of good luck that Blankenship managed to turn into a major problem. In the winter of 2000-01 electricity demand rose and the spot price for Central Appalachian coal jumped from \$24 a ton to \$48 a ton. Mining companies began digging furiously, hiring more workers and pushing up wages. Blankenship refused to match the increases.

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CYNICAL INVESTORS HAVE reason to view the governance of mutual funds with skepticism. According to the elaborate mechanism set up in the Investment Company Act, independent directors ride herd on the firms that distribute funds, haggling over fees and firing money managers for bad performance. In truth, the management never gets fired—and fees creep upward. Over the past ten years, domestic stock fund assets quintupled to \$2.6 trillion. Despite the economies of scale, the average expense ratio went from \$1.27 per \$100 of assets to \$1.51, says fund-tracker Lipper. Are fund boards nothing but rubber stamps?

Now, a lawsuit against two fund families—UBS Asset Management and Alliance Capital Management, which has managed some UBS funds—has unearthed evidence that will confirm

your worst suspicions.

At UBS, which has acquired PaineWebber, Brinson and Pacer funds, the board meeting agenda is drawn up not by fund directors, but by the very managers they are supposed to be negotiating with, deposition testimony and fund documents show. The board, currently 12 members, is not even solicited for input. Once called to order, directors oversee 41 funds at once. UBS typically slots 15 minutes for “executive sessions” when the 10 independents meet privately.

UBS fund directors haven’t exactly been agonizing over the fees. One category, the so-called 12B-1 fee, is a charge for marketing a fund and is predicated on the notion that bringing in additional assets will help existing shareholders by spreading costs over a larger base. Between 1998 and early 2001 the UBS fund board spent 10 to 15 min-

Funds and Games

Did you always suspect that independent boards at mutual funds are a sham? Take a gander at this lawsuit.

BY NEIL WEINBERG

OR

Paying Retail

Premier Growth Fund directors have left investors paying up to nine times what other Alliance clients do for the same type of funds.

Fund	Stock-picking expenses (per \$100)
Alliance Premier Growth	\$0.97
ALLIANCE CLIENTS	
Florida State Board Large Capital Growth	0.15
Pace Growth	0.30
Vanguard U.S. Growth	0.11

Sources: Funds; court documents.

utes of each quarterly meeting reviewing 12B-1 fees for all the funds. That comes to less than 30 seconds per fund, maximum. This, despite a Securities & Exchange Commission rule saying directors are obliged to ensure that when the 12B-1s bring in new investment dollars, shareholders get a break on expense ratios.

While giving short shrift to shareholders, directors spent 30 minutes at one meeting focusing on the funds' pretax profitability to UBS, fund treasurer Paul Schubert testified. Unfortunately for fund investors, since the late 1990s UBS has plowed much of its new money into new funds, not giving existing investors a break. In fact, in deposition testimony Schubert and fund secretary Amy Doberman said they did not recall independent directors ever inquiring about economies of scale or voting against an investment advisory agreement or 12B-1 plan.

This unanimity has helped keep quarterly meetings short, never more than four hours. Lunch is not served because the directors aren't around long enough to eat it. They can afford their own: The independent directors are paid \$10,000 per meeting, or a minimum of \$2,500 per hour, plus \$50,000 annual retainers.

The results are not good news for UBS fund investors. As fund assets at UBS' Brinson group grew 28-fold in the decade through 2000 to \$7 billion, and revenues from fund fees increased 32-fold, this family's average expense rate (on U.S. stock funds) rose from \$1.14 to \$1.29 per \$100.

Just as bad, directors are willing to pay fund firms far more than institutional

clients do to pick stocks. Look at Alliance, whose Premier Growth Fund had \$17.5 billion in assets in 2000 and nicked its investors 97 cents for selecting stocks (the overall fee is \$1.73). Alliance bills big institutions at least two-thirds less to run the same sorts of funds for them. Premier's manager, Alfred Harrison, ran the Florida State Board of Administration Large Capital Growth fund—which was one-quarter Premier's size—for a mere 15 cents (*see table*).

"The fee for picking stocks ought to be the same if board members are truly negotiating," says Thomas Grady, lead plaintiff attorney in the lawsuit, now before an Illinois federal court.

Are UBS fund directors something better than rubber stamps? We called on independent director Meyer Feldberg, dean of the Columbia graduate business school, whose specialties include corporate governance and ethics. His office said the dean was too busy to speak.

In a written statement, UBS says the legal action is without merit, adding its fund fees are "well within industry parameters" and approved by a board made up of a majority of independent directors. It declines further comment. Alliance says the suit is groundless but refuses additional comment because of pending litigation.

The lawsuit pays heavy attention to the ill-fated UBS Strategy Fund. Launched in December 1999 to buy large-cap growth stocks at what turned out to be the peak of

their popularity, it quickly sucked in \$2.1 billion in assets. Its equity selection involved buying from a UBS list of Global 50 Highlighted Stocks—a list that was publicly available for free. In other words, Strategy required very little stock-picking prowess. For this UBS assessed a 5.5% sales commission for class A shares and \$1.28 in annual fees. That included 75 cents for

stock picking. The board signed off.

"The managers said, 'Let's charge 7 cents,' and the board replied, 'Great,'" says attorney Grady. "There was no reasonable discussion."

Strategy suffered mightily in the crash. In the three years through 2002, it lost money at a 25% annual rate, against the market's negative 14% return. Investor headed for the exit door. UBS decided to merge Strategy and its sorry record out of existence. In March the fund was folded into the better-performing but smaller UBS Global Equity Fund. (In rating funds that merge, FORBES retains the performance record of the larger of the two, regardless of which name survives. In this case Strategy's disastrous record has now been picked up in the history for Global Equity.)

In Strategy's merger prospectus UBS touted "economies of scale, which will benefit shareholders as well as the fund's investment advisor." Here's the benefit Strategy investors, who had been paying \$1.28 in total expenses, got a 3-cent break and are now paying Global's \$1.25, thanks to a three-month fee waiver. But come July, unless the UBS fund board votes otherwise, Global's expenses soar to \$1.55.

Attorney Grady, who owns Strategy shares, attended the March meeting called to discuss the merger proposal. He was the only investor on hand. UBS was so surprised to have a shareholder show up that it had neither fund managers nor directors around to answer questions. After a few twitchy minutes, company officials called for a vote and declared the proposal passed by

proxy, with unanimous board backing.

In defense of UBS, let us add that investors do not really need self-appointed guardians of the public interest like Tom Grady. These are, after all, open-end funds, obliged to refund 100% of net asset value to anybody who wants out. Fund shareholders can vote with their feet.

Directors let the managers across the negotiating table draw up their agenda.

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Victor Sassoon serves it up on Orchard Road. ferent, just get out of the way," says consultant Timothy Castle, coauthor with his wife of *The Great Coffee Book*. "Coffee Bean has an entirely different demographic. It is a viable alternative."

The chain's main claim to distinction is a lighter roast, which it says attracts a younger crowd than that of Starbucks, whose focus for most of its history has been on darker coffees. "It's like toast," says Melvin Elias, Coffee Bean chief operating officer. "The more you burn it, the less you taste the bread." Sniffs Lara Wyss of Starbucks: "It takes the great skill and artistry of a master coffee roaster to bring the best coffee in the world to life."

Coffee Bean was also the first to sell ice-blended coffee concoctions like Vanilla Ice Blended and Mocha Ice Blended, which can be up to 75% milk, powder and other noncoffee ingredients. These, too, appeal to a younger demographic and account for 45% of Coffee Bean's sales.

So there's arguably some ground to carve out against Starbucks, but how to get up to the leader's warp speed? Sassoon's plan is to open 280 new outlets over the next few years—targeting the U.S., Spain, Germany and Japan. In all these markets, Coffee Bean will face local chains as well as Starbucks.

It won't be cheap. Though Coffee Bean

franchises outside the U.S., it wants to keep owning all its American locations, where most near-term growth is planned. It costs about \$300,000 to open a typical coffee bar of 1,500 square feet.

So Sassoon is hoping to raise as much as \$200 million in an initial public offering, maybe in two years. If the new-issue market is still weak, Sassoon may look to private investors.

But he is convinced that specialty coffee is not a passing fad. This year Coffee Bean turns 40, making it the country's oldest coffee chain. "It's addictive," says Sassoon. "Once your palette has gotten used to good coffee, it's hard to go back to the old stuff."

F

We're Number Three, We Try Harder

No one's going to catch Starbucks, but the specialty-coffee race should leave room for a runner-up. Victor Sassoon's Coffee Bean chain wants that honor | BY JUSTIN DOEBELE

IT'S RAINING. I HAVE TO OPEN THE ROOF!" blurts Victor Sassoon, as he rushes inside the Coffee Bean & Tea Leaf on Singapore's popular Orchard Road. In seconds an awning unfurls over the patio. Sassoon, always fussing, stops to rearrange chairs before sitting back down to finish his favorite coffee drink, an iced mocha latte.

Details count in the hypercompetitive, highly fragmented \$100 billion (worldwide sales) coffee market. If customers aren't happy at this Coffee Bean, there's a Starbucks across the street. Nowadays there's a Starbucks across just about every street.

Privately held Coffee Bean has 222 outlets in 11 countries, \$110 million in

annual revenues and an estimated \$9 million in net profits. That's many lattes short of \$3.3 billion (sales) Starbucks, with 6,444 coffee shops worldwide.

But Sassoon, 45, a former rock promoter who with two partners bought the U.S.-based chain five years ago from a couple who'd made it a Los Angeles cult favorite, has grand ambitions of becoming runner-up to the Seattle-based giant. (Doutor, with \$440 million in sales from 1,218 outlets—all in Japan—currently holds down the number two global spot.)

"The specialty-coffee market right now is all about identifying clear alternatives to Starbucks. If you can't be at least as good as Starbucks, and demonstrably dif-

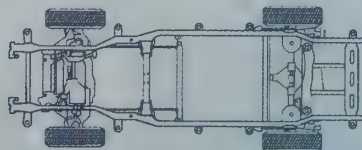
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Outsourcing

Transforming the Corporation

Introduction by Peter Bendor-Samuel
Produced by Jerry Bowles

When building something new, one needs a blueprint and reliable tools. Those tactics are crucial in business transformation initiatives. Over the past three decades, outsourcing has achieved many notable successes and become the leading strategic tool in business transformation. Its blueprint leverages a collaborative relationship and external resources, allowing companies to simultaneously operate in two different directions. It can develop new products or services while supporting its existing business model. Without outsourcing, companies lack resources to sustain both operations, so the new one fails or both underachieve.

We can all learn from those who successfully utilize outsourcing to achieve high-value outcomes. Seven such companies are recent winners of the Outsourcing Center's 2003 Editor's Choice Awards. Their stories (at www.outsourcing-journal.com) demonstrate how two companies can align their interests to achieve the buyer's transformational goals. William Beaumont Hospital, for example, spun off its facilities maintenance staff into a joint-venture outsourcing organization focused on innovation in transforming operations of the hospital's large, complicated facilities. Reliable Integration Services became a strategic partner every step of the way in transforming the city of Falls Church, Virginia's antiquated IT operations. Detroit Public Schools say Compuware, their IT service provider, listened to their needs and more than met expectations in their turnaround.

BearingPoint and Outsource Partners International collaborated on a solution to mitigate risks and ensure business units' buy-in for transforming Trinity Industry's financial systems. CSC transformed St. Vincent Catholic Medical Centers'

undercapitalized IT operations subsequent to a merger. When Rhodia determined its support functions were not competitive in its market, Accenture implemented solutions giving the chemical company competitive advantages. After benchmarking user satisfaction levels and IT goals, the city of Chicago outsourced its complex IT environment to Unisys, resulting in a dynamic transformation in its operational capabilities and reputation.

Though these award-winning transformations were complex and large scale, they were accomplished within requisite timelines and budgets. Clearly, these models demonstrate how to use strategic outsourcing to ensure flexibility, mitigate risks and reduce capital investments as companies move forward to take advantage of opportunities to improve their businesses.



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We're the Business Behind BusinessSM

Advanced Technology Services, Inc. – Making Factories Run Better

Companies that outsource business processes gain a competitive advantage by improving their ability to focus on core competencies (i.e., the things that differentiate the company's products and entice customers to buy them). Because a properly managed maintenance program enables a manufacturer to meet its customers' expectations and achieve long-term success, it should be outsourced to a company whose core competency involves maintaining production equipment.

- Do you lack the time, resources and experience needed to develop an advanced factory maintenance program that includes a proactive maintenance plan?
- Do you find it difficult to recruit, train and retain technically competent maintenance personnel?
- Could better processes help you more effectively analyze problems, determine their root cause and drive continuous improvement?
- Do you need to maximize the value of every dollar you spend and reduce your total cost to produce?

If you answered "yes" to one or more of these questions,

consider outsourcing maintenance to help you achieve your goals. Advanced Technology Services, Inc. (ATS), headquartered in Peoria, Illinois, contributes to the success of manufacturers throughout North America by providing solutions that improve productivity and profitability — critical objectives in today's competitive economy. An ATS solution includes maintenance of production equipment and related activities — with the measurable outcome of lower cost and higher productivity.

An engine manufacturer is saving more than \$1 million annually as a result of ATS assessing the manufacturer's situation. ATS tracked and measured performance and then analyzed the root cause of problems. On ATS' recommendation, the manufacturer chose to outsource maintenance. The manufacturer now focuses all of its energy on improving engine quality. In addition to reducing production costs, the manufacturer improved on-time delivery and customer satisfaction.

"We make factories run better," says Richard E. Travis, vice president of sales and marketing at ATS. "Our customers tell us the results they want to achieve, and we execute maintenance with a passion to increase productivity, improve quality and save them money. ATS has elevated maintenance by developing superior

2003 Outsourcing Center Editor's Choice Awards

Best Partnership

St. Vincent Catholic Medical Centers/
Computer Sciences Corporation (CSC)
Facing financial failure and unable to consolidate information systems for its nine hospitals, home care agency and four nursing homes, St. Vincent turned to CSC for a solution. When 9/11 hit the hospital with business disruption and patient losses, CSC enabled the hospital to carry out its mission.

Best Government Relationship

City of Falls Church, Virginia/
Reliable Integration Services
Falls Church's new CFO inherited 2,200 spreadsheets, no financial reporting capabilities and disparate information technology that had no documentation for its many modifications. Reliable Integration Services smoothly transitioned the city through system conversion and integration with city agencies and its police network.

Best First Steps

Trinity Industries (Buyer)/
BearingPoint and Outsource Partners International (Service Providers)
Trinity Industries grew through hundreds of acquisitions and was operating with no standardization among its business units. While looking at implementing new financial

systems, management's eyes were opened to the role of business process outsourcing (BPO) in business transformation. Service providers BearingPoint and Outsource Partners International understood Trinity's challenges in business transformation and change management. They crafted a unique solution, mitigating risks associated with transformation, and established incentives to ensure innovation in process improvement.

Most Strategic

Rhodia/Accenture
When executives from Rhodia, the French spin-off chemical company, decided to consolidate finance and accounting processes from its 60 locations, they knew that central Europe was the best choice for building a shared services unit. They lacked capital and the expertise to drive enormous process changes; Accenture made it happen.

Most Visionary

Beaumont Hospital/
Beaumont Services Company LLC
Beaumont Hospital knew its facilities management employees could transform the hospital's business, but they needed to operate from a strategy and budget separate from the perspective of hospital executives. Once the unit was spun off

as Beaumont Services Company, they were motivated to work for the hospital as a customer, rather than employee.

Most Flexible

City of Chicago (Buyer)/
Unisys (Service Provider)
Prior to outsourcing, PC repair could take a month at the city of Chicago, service levels did not exist, and user satisfaction was at a level of 2.1 (out of 5). Unisys took over the IT processes, tailoring the model to meet the unique needs of the city and ensuring flexibility to adapt to Chicago's environment. The satisfaction level rose to 3.7 — the biggest jump in short time that Gartner had ever seen.

Most Improved Process

Detroit Public Schools (Buyer)/
Compuware Corporation (Service Provider)
When Compuware Corporation took over IT processes for Detroit Public Schools, they inherited a computer room that looked like plates of spaghetti and turned it into a network with T3 Internet access. With no means of increasing its revenue, the district chose outsourcing as the solution. By outsourcing process improvement, the school district now has an annual cost savings of several million dollars to re-invest in teachers and textbooks.

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*IDC White Paper, May 2001

Web-based document management would save hours of searching.

Scanning and e-mailing this document would save overnight delivery charges.

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tools, methodology and training. We've improved performance for some of the most sophisticated manufacturing companies in the world."

ADP: Lessening the Burden of Benefits Administration

With economic pressures mounting, many organizations are evaluating their strategic priorities and concluding that they must place more focus on their core competencies. One way for companies to achieve these strategic priorities is by outsourcing non-strategic business functions. While Human Resources activities like recruiting and retaining employees are essential to any business, the transaction-processing activities that are part of benefits administration are increasingly being considered for outsourcing.

ADP® Employer Services (ES) division, a leading provider of integrated human resources, benefits and payroll systems with over 450,000 clients, sponsored a national survey to find out how nongovernmental companies with 1,000 or more employees administer their benefit plans.

"We found that the most commonly outsourced benefits programs are, perhaps not surprisingly, the ones that are most complex and highly regulated by federal laws, such as ERISA, HIPAA and IRC Section 125," says Andy Childs, Vice President, Marketing, ADP Benefits Services, a division of ADP Employer Services. "In these programs, companies face some risk if they aren't in compliance, so they are really looking for expertise as much as cost savings."

Childs says there are three broad reasons that companies outsource many of their transactional, but non-strategic, activities. "The first of these is to be able to maintain a focus on the critical areas of their business," Childs says. "The second reason is it gives them access to best practices. At ADP, we do a lot of HR, so we are able to bring the latest and very best practices to our customers. And the third reason is efficiency. Company executives must ask themselves, 'Can you save money? Can you convert fixed costs into variable costs?'"

As for choosing an outsourcing partner, Childs says it is very important to examine the outsourcing partner's reputation, track record, customer retention rate and financial health.

"Most outsourcing relationships last a long time, so you want to make certain that you choose a provider that has a strong financial track record and you know is going to be around," Childs says. "Our average customer relationship is 10 years. You should be just as careful when choosing a benefits outsourcer as you would be in forming a financial partnership because your outsourcer

is going to be an integral part of your business for a long time."

IKON Delivers Document Efficiency to LensCrafters

LensCrafters Inc., the largest optical retail chain in North America with 882 stores, is part of Luxottica Group, the world's largest manufacturer, distributor and marketer of sunglasses and eyewear.

LensCrafters' copy and mail centers are based at its American headquarters in Mason, Ohio, and provide in/out-office and interoffice mail processing, fulfillment and distribution store communications.

Not satisfied with the level of service it was receiving from former document services partner, LensCrafters began looking for an outsourcer that could offer innovative technology, document management ideas and best practices to improve operating efficiencies, reduce costs and increase productivity.

That search led to IKON Office Solutions, one of the world's leading providers of products and services that enable customers to manage document workflow and increase efficiency. An IKON management services team worked in partnership with LensCrafters to improve the operating efficiencies of its mail and copy centers, streamline the on-site and off-site printing and fulfillment services and manage the acquisition and distribution of supplies.

IKON began issuing detailed monthly reports to establish benchmarks that would be used to measure the effectiveness of performance and drive continual process improvement. An enhanced mailroom was designed and configured, mail standards and procedures were established to improve productivity and minimize costs, and the copy center was redesigned to increase efficiency and create a more customer-friendly environment.

In addition to improved operating efficiencies, LensCrafters' overall savings exceeded \$100,000 in a single year as a result of IKON's recommendations regarding print migration, shipping and mailing advisory, and a streamlined distribution process.

"We initially selected IKON because of their expertise in document services," said Joe DeZenko, Associate Vice President of LensCrafters Operation Services. "What has made this partnership successful is their commitment to our business by continually providing workable solutions to help us achieve our goals."

As a result of the document expertise gained from accounting such as LensCrafters, IKON has established a proprietary service methodology called IKON Service ExcellenceSM. This process enables IKON to consistently deliver standardized outsourced expertise by combining innovative technology, best practices and world-class service.

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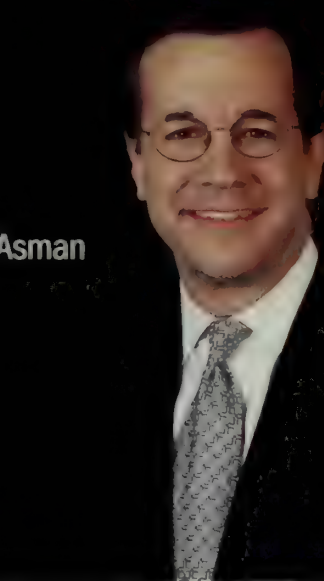
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ALL Eyes On Google

With luck and brains, the search service has won the hearts and minds of millions and built a booming business. Watch out: Microsoft wants in.

BY QUENTIN HARDY

Just when high tech had nothing left to believe in, along came Google.

As a skeleton key for the Internet, Google in five years has grown from an academic exercise in search of better ways of finding stuff on the Web into a thriving, prodigious advertising business beloved by users, sought by a hundred thousand advertisers, coveted by Wall Street and envied—or reviled—by a swarm of rivals.

Google was launched less than four years ago by two graduate students in computer science: one, a Russian émigré named Sergey Brin, now 29; the other, a Michigan-reared engineer named Larry E. Page, now all of 30. As a gateway to 3 billion Web pages, Google is a strangely unadorned site: 37 words, four tabs and a blank space where you type in a query of up to 10 words. Google's over 10,000 networked Google computers crawl through an index to those 3 billion pages, rank them with an equation that includes 500 million variables and spit out up to a few thousand listings. The ranking takes 500 milliseconds; the computers can handle a peak rate equal to 7 million queries per hour.

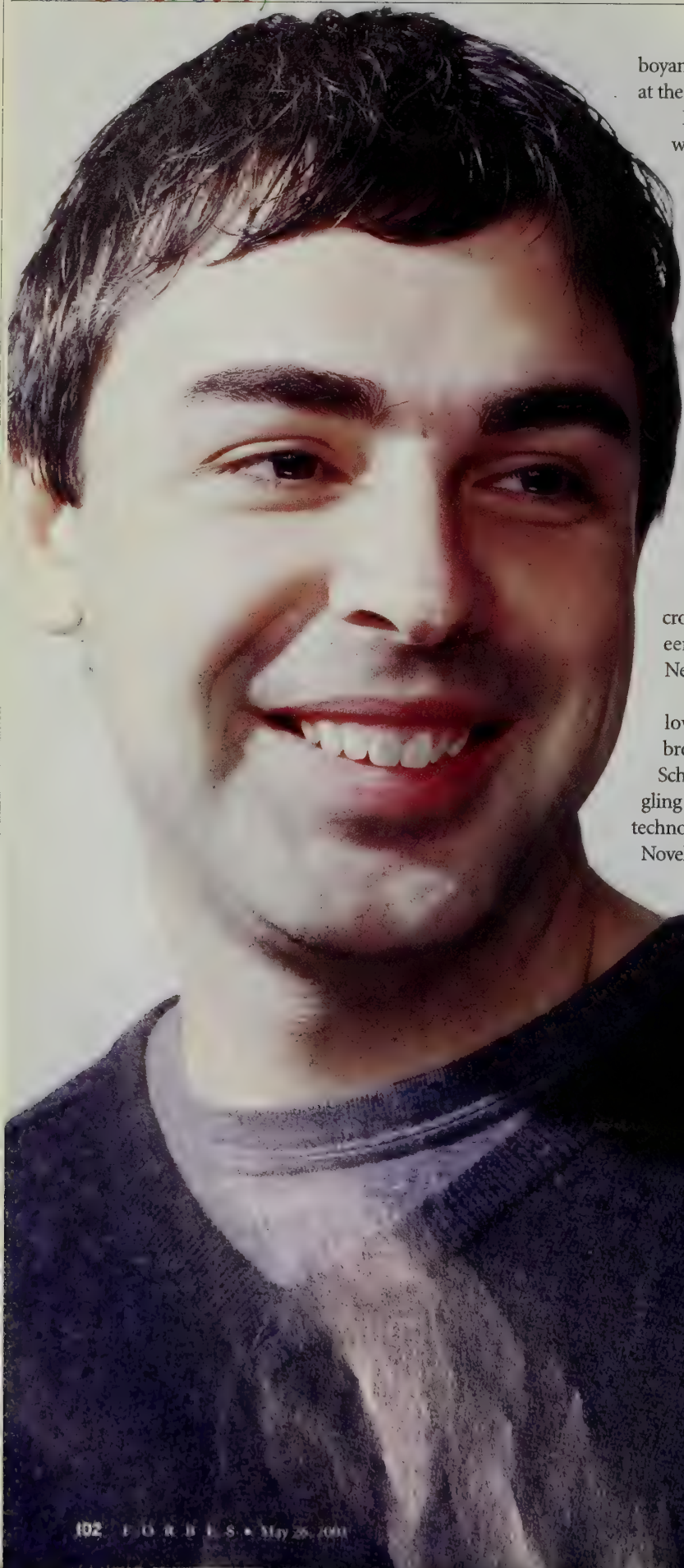
But Google has become much more than merely a search service. It is a daily tool and main entry point for millions of users, stealing the spotlight from the browser (Explorer or whatever) and Internet portals like Yahoo. It is a labor of love for programmers, who have built applications off of Google and posted them like trophies on the Web. One does a "smackdown," comparing the Internet ubiquity of two words ("love" beats "money," but not by much); another creates poems (*see boxes, p. 106*).

For Wall Street and Silicon Valley, Google is the great bright hope for an initial public offering that might revive moribund tech stocks. And Google has become its own meme, the stuff of *New Yorker* cartoons and a brand, like Kleenex and Band-Aid, that is in danger of becoming a part of the English language. You don't search for something on the Web anymore. You Google it.

Google now can be queried in 36 languages, with more to come. At the posh Hotel Bel Air, in Los Angeles, manager Lisa Hagen makes a point of Googling all guests before arrival, searching out better ways to spoil them. "If we find out they like to jog early in the day, we make sure they get a room with morning sun," she says. In Boston, Mark Kini manages a small limousine service that spends 80% of its ad budget on Google and other search sites. Says he: "It's how we survive the recession." In Westport, Conn. consultant Elena Am-



Google's chic geek:
cofounder Sergey Brin.



boyan's kids use Google daily; even when they research something at the library, they say they're Googling it.

It is all much more than Brin and Page ever had in mind when they started. "Sure, I'm surprised by the success," says Brin, unassuming, rumped and wiry, his sneakers scuffing the upholstery of a conference-room chair. Users love Google, he says, because they find things there when they are desperate to know an answer. Keep offering better results and you hold their loyalty forever—and sell them stuff. Page adds that Google has become "like a person" to them, helping them and giving them intelligence any hour of the day."

The passion and success igniting Google, and its emergence as a new interface for the Internet, have made it a rich, fat target for rivals. Yahoo is taking aim. So is the biggest search outfit, Overture, a little-known billion-dollar vendor that provides unbranded search services for other Web sites and has sued Google, alleging patent infringement. A gaggle of some 200 Web sites in China is reportedly going after Google, too.

And now Google faces the most lethal threat of all: Microsoft, aroused, is taking aim at the popular site. This bears an eerie resemblance to the rise—and calamitous fall—of Netscape, the first commercially successful Web browser.

Will Google be the next victim of a Windows that swallows everything? To help ensure a future, Brin and Page brought in a grown-up as chief executive, Valley veteran Eric Schmidt, 48. Fittingly, Schmidt had abundant experience struggling against Microsoft in his two previous jobs: He was chief technology officer at Sun Microsystems, then chief executive of Novell, two companies that thought, wrongly, they had Microsoft

licked. Google's founders credit Schmidt with successfully managing their company's most intense period of growth.

To survive and succeed will require lots of talent, lots of acquisi-

Searching for success:
cofounder Larry Page.

ons and lots more money. More important, Google will need to quell the hubris that is much in abundance at the jubilant company these days. To be at Google is to bask in your own public relations. The hallways of the company's four buildings in Mountain View, Calif. are decorated with articles from around the world praising the company. One current job posting includes duties as Google's company historian. Over 70 of the 800 employees have Ph.D.s. Google's head of engineering admits his big-brained staff is in awe of itself; he hopes the simplicity of the Google page masks that from the outside world.

In some ways Google feels like the giddy dot-coms of the stock-market bubble, circa 1999. Informal to a fault, Google offices are littered with party-colored lava lamps, bins of free Coke and candy and giant plastic balls that invoke Google's multicolored logo. The cafeteria serves free lunch to the workaholic ranks and dinners, too; there's lots of code to write).

When pizza gets delivered at one o'clock in the morning, plenty of people are on hand to devour it. Every day a thousand more résumés arrive from people hoping to join this work party.

But the dot-com parallels end when you look at the finances. The dot-bombs burned through tons of other people's money. Google makes a pile of cash on its own. After it went live in September 1999—six months

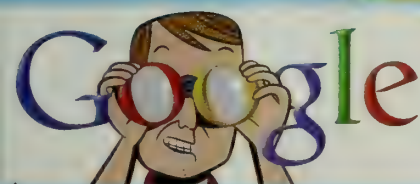
before the Internet bubble finally popped—Google took in perhaps \$25 million in 2000. Then it leaped fourfold to approach \$100 million in 2001 and tripled to \$300 million last year. Its gross could more than double this year to \$700 million, estimates Safa Rashtchy of U.S. Bancorp Piper Jaffray.

Google, privately held—and determinedly so, for now—won't talk numbers, but it does brag that it just logged its ninth consecutive profitable quarter. Its revenue flows include ads (the bulk); search services for Yahoo, America Online and other sites (perhaps \$100 million there); and custom-tailored, bright yellow servers for corporate accounts.

"Cheesy as it may sound," says cofounder Brin about the company's early days, "we never thought in terms of revenue streams." Now he must, for the next year or two could determine whether Google delivers on the high hopes it inspires in so many quarters or instead falters, glorying in its early success while others plot its doom.

Google traces back to 1995, when Sergey Brin and Larry Page, whose fathers taught college math, met at Stanford. The sons saw

WHAT ARE GOOGLISMS?



It's a surefire hit in tech when lots of people work on a product for love, not money. After Google released technical details of its search program last year, scores of independent programmers have built odd Google variations. One runs Google pages backwards (questions must also be sdrawkca), another finds Web pages similar to that obscure site you love. Many are posted on the Web. On the following pages are six hits.

Sources: Google Hacks, published by O'Reilly & Associates; Internet; ComScore QSearch Data.

5,707 years

How long it would take to do a manual search of Google's 3 billion Web pages, at one minute a page.

0.5 seconds

How long it usually takes Google to search its database.



1,948,000,000

Market capitalization of publicly held search companies Overture, LookSmart, InfoSpace, FindWhat and Ask Jeeves.

\$2,100,000,000

Market cap of Google, if it traded at 3 times estimated 2003 revenues.

33%

Google's share of global English-language searches.

88

Number of languages in which you can have the Google home page set up, including Urdu, Latin and Klingon.

The Muscle Car with Brains

Bring 'em back.

Bring back
the drive-ins.

Bring back
the big blocks
and the V8s.

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go back
too far.

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and
climate-controlled
seats,

well,

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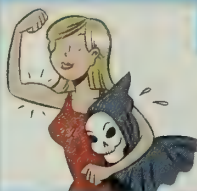
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SMACKDOWN



www.onfocus.com/googlesmack/down.asp

The Smackdown compares the relative popularity of two words on the Internet. "Sex" is four times more popular than "death"; "beer" does better than "milk." A French version, www.googlefight.com, adds a Hall of Fame, with contest outcomes of other players.

search as an interesting problem in organizing very large datasets.

At the time, users typed in a few words and got a list of thousands of Web sites using those words, but most of the results were irrelevant. Brin and Page quelled users' frustrations by adding order to this randomness. They judged a listed site's prominence by how many other Web sites valued it enough to have links to it. They gave sites a resulting "Page rank" (for Larry, not Web pages). This cliquy if democratic approach was later augmented by other algorithms that weight sites by other variables—news sites get a higher ranking than a 16-year-old's personal Web log.

The two grad students soon found their results were a step above any other kind of search. They had dubbed this system Back Rub, after the "back links" that pointed to a site. They adopted the name Google in early 1997, in a tribute to scale, a play on the number known as a googol—a one followed by a hundred zeros. The universe does not contain a googol atoms. The denizens of the company headquarters breezily refer to it as the Googleplex, that being the word for the unimaginably large number defined as a one followed by a googol of zeros.

Brin and Page introduced Google to the world in a paper they presented at the World Wide Web Conference in April 1998. Naively, they were downright hostile to advertising, calling it "insidious ... because it is not clear who 'deserves' to be there, and who is willing to pay money to be listed." A few hundred million in revenues later, Brin has changed his mind. On a Google results page, he says, "There are eight spots for ads and ten search results. It's a lot of room for diversity."

Soon after, the pair began trying to sell their technology to Web sites, including Infoseek, Excite and Yahoo. They found no takers; one chief executive told them that if his site could search only 80% as well as everyone else's, that was okay by him. "That company is now out of business," Page says. Then their faculty adviser invited them to a breakfast with Sun Microsystems cofounder Andreas Bechtolsheim on the Stanford campus. Midway through the demo, Bechtolsheim stopped them and wrote a check for \$100,000 to Google Inc.

BUZZ TOOLBOX



www.buzztoolbox.com/google/

ResearchBuzz Toolbox is a trove of unauthorized uses of the Google technology, including GooCookin' (list the contents of your near-empty refrigerator; it finds a recipe to match) and GooPoetry (enter a term; it makes bad verse from the pages where it appears).

This presented a problem, as Google didn't yet have a bank account. There wasn't even a "Google Inc."—they hadn't yet decided to form a company. The check sat in a drawer for several weeks, and then they got serious.

By June 1999 Google had raised almost \$30 million from venture firms.

Sequoia Capital and Kleiner Perkins Caufield & Byers, plus Stanford and individual investors. Three months later the Google site officially blasted off. It could scan 30 million Web pages. Today it culls 100 times as many, and still taps only half the Internet; the rest lies behind corporate firewalls or in isolated islands unlinked to anything else.

As Google began to thrive, the Web world was crashing, and this, too, proved lucky for the pair of founders. As dot-coms collapsed, Google took over cheap office space, barely used Aeron chairs, dozens of servers and platoons of out-of-work programmers. By mid-2001 Google was profitable, employed several hundred people and was seeing traffic grow 20% every month. Thriving despite the surrounding downturn, Google went shopping for a seasoned chief executive. "My job was to impose a little order," Schmidt says now. "I made it clear that I wasn't coming in to get rid of the founders." Sergey Brin gave up his chairman mantle

GOOGLESARE



www.raelity.org/lang/perl/google/googleshare/

Googleshare is a very nonscientific read on how much any one person or topic matters on the Web. According to Googleshare, Madonna has a 0.91% claim on the idea of "music"; Mozart has a 0.9% share. Bill Gates is richer than Croesus, smarter than Einstein.

and assumed the title of president of technology; Page, who had been chief executive, is product president.

While the two techies concentrated on improving their search formulas, Schmidt focused more on building a better business model. Google had run ads with its search results for a while, but on a fixed-fee basis. Its main rival, Overture, publicly held and with \$668 million in sales last year (it projects \$1 billion in revenues this year), had already gone a step further. It exacted higher fees from advertisers by selling them rights to given keywords so their ads popped up first when those words are entered in a query. Sponsors paid on a cost-per-click basis instead of the usual cost-per-thousand-visitors.

At one point in 2001, Google officials even met with Overture to compare notes, Overture officials say. In December 2001 Google started a similar test on its Usenet section, unveiling a service called Adwords. The response was so enthusiastic that, by February 2002,

Adwords had been extended to all Google listings. It grew to 100,000 bidders in ten months, and thousands more advertisers are still signing up. Total Web advertising fell about 5% last year, to \$6.5 billion, while search ads almost tripled to \$1.4 billion and could hit \$7 billion in five years, says Piper Jaffray's Rashtchy. (Google it-

new driver: \$280

new hard drive: \$102



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for more ways the MasterCard BusinessCard® can help keep track of small business expenses, go to mastercardworking.com or call 1-866-MCWORKING. there are some things money can't buy. for everything else there's MasterCard®



self advertises very little, instead relying on word of mouth.)

"Some companies have purchased thousands of keywords, and they use them to test multiple products against multiple words," says Sheryl Sandberg, director of the wildly successful Adwords program. Noting most all Adwords bidders are U.S.-based, while half of Google searches are by users overseas, Sandberg sees huge growth in foreign markets. "The monetization should follow. This is a global bid," she says. Ads are sold in 11 languages.

Schmidt calls the success of Adwords "a total accident—when we went off fixed pricing, my only directive was 'Just don't let revenues drop.'" His foes at Overture allege instead patent infringement, suing Google in April of last year; one month later America Online dropped Overture in favor of Google Adwords. The case is likely to drag on for a long time.

GOOGLISM



www.googlism.com -searches

Googlism defines people or things through Google search results. "Alan Greenspan is chairman of the Federal Reserve Board and arguably one of the most powerful individuals in the United States" is next to "Alan Greenspan is just a confused bureaucrat in a business suit desperately trying to hold on to his

In Adwords, businesses use an auction system on the Google site to bid for the most popularly searched words and phrases. Google gets paid every time someone clicks on the ad itself. Bids start at 5 cents per click but can go to \$15 or more for high-end products like helicopter parts. Critically, Google demotes a sponsor to a lower rung on its page if its response rate is too low, elevating a rival's ad for getting more clicks. This imposes a built-in pressure on businesses. They're even asked to revamp wording if less than 0.5% of viewers click on their ads. By con-

No Rest for the Query

Google aims to wow users with the best possible search results and win advertisers with the best possible leads. It is always striving to concoct a better algorithm. "On a scale of ten, Google is a three. The others are a two,"

says Sergey Brin.

Such cockiness rankles rivals. Google "is a coding sweatshop," says Gary Flake, chief scientist at archival Overture. One of Flake's recent hires, aghast at the Google workload, called him to accept a job mid-

Overture's Flake:
focused on search.



way through his Google interview. Flake prides himself on the research he publishes and disdains Google's secrecy: "What are *they* publishing?"

"We're working on our home page rather than writing up papers," counters Google Technology Chief Peter Norvig. "We want to build."

Both sides have more to do. Say you're looking to buy a tennis hat. Type "hats" into the query box and Google's first listings include the defunct site "Hats of Meat," evidently some passing joke, followed by "Fat Chicks in Party Hats" which is an unhelpful look at pornography and obesity. Alltheweb.com, Overture's search site, skips the meat site, but offers the porn item.

"Web search is the most challenging field in computer science," says Flake. It calls on skills in operating systems, network architecture, artificial intelligence, linguistics, probability theory and fuzzy logic. A relevance ranking may evaluate relationships among words, page links, even a page's word count. He aspires to a search system with the ability to index

100 billion documents without falling apart.

Flake plans to add machine learning, which improves each search by drawing on past efforts. Data from human editors who currently review key words for their relevancy to Web pages will be keyed into the machine learning process.

Ask Jeeves makes semantic distinctions, so that "curry," the spice, will be distinct from "curry," the horse care. Like Google, it judges a page's utility in part by how many other people have linked to it. Yahoo wants a guided search, leading users through a series of steps to find the perfect page. Microsoft wants search that remembers everything you have seen, letting you call it back up by date, topic or what you were doing when you saw it—surfing, reading e-mail, etc.

Google does not want human entanglements. Norvig plans to solve the curry problem with software tricks. "Search should be like HAL in 2001," he says. "It should understand what people say—hopefully without killing anybody."

—Q.H.

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trast, many traditional banner ads get click rates of just 0.3%.

This could transform the \$193 billion business of direct marketing. Junk mailers constantly work on narrowing the recipient list to the people most likely to respond and on jazzing up the envelopes to trick them into looking inside. Google ends the guesswork. People directly declare what interests them, and Google feeds them an appropriate ad. The ad's few pitch words are critical. For big corporate accounts like Dow Chemical, Google account executives continually recraft the message, like a haiku of commerce, aiming to maximize the click-through.

Google's long-term dream is to index all of the world's public information and make it searchable—everything from driver records to radio shows and films—and reap profits from it. This is scarier than it sounds. Google holds an archive of 800 million postings to Internet newsgroups, from alt.sex.bondage to alt.humanities.classics, most of which it bought on the cheap just before Dejanews.com went out of business in 2000.

It is a strange bazaar of information and a repository of embarrassment for people who were forthright (or shortsighted) enough to forgo anonymity in their postings. Google easily unearths the Web's first mention of Microsoft; and Sergey Brin's 1992 complaint about selling his car; and the musings of a married midwestern academic who posted a plea on alt.sex.fetish.tickling. Ours for the ages, unless he follows Google's somewhat obscure directions—located in the "Groups Help" section—on removing work from the archive. Even posts like that one trigger a precision-targeted ad: One offers "Discount 14-K Gold Anklets." Like much of the Web, Google also makes good money on porn.

While Google wants to own the world, Microsoft is going after Google. It now has 70 engineers working on search technology, and by some accounts it could triple that staff. Its new best friend is Overture, which already provides search services for Microsoft's MSN online service. Overture scientists frequently visit Microsoft in Redmond to plan next-generation features. Microsoft also could acquire a search company this year; one likely candidate would be San Francisco-based Looksmart. Neither Overture, with a market capitalization of \$669 million, nor Looksmart, at \$328 million, would be more than a bagatelle for Microsoft, which has \$38 billion in cash.

The Google guys profess to be unfazed. They have assiduously avoided the sins of Netscape, which belligerently jeered at Microsoft's efforts to build a Web browser. "Netscape mooned the giant," says one Google exec, noting Google welcomes Microsoft ads on its site. Plenty of other threats abound. Yahoo, despite investing

TOUCHGRAPH



www.touchgraph.com/TGGoogleBrowser.html

The Touchgraph Google Browser maps out how different Web sites are connected to one another. Check out the connections to your own Web site, or use the home page maps to see how many steps it is from the *New York Times* to the *Drudge Report*.

in Google and paying for its service, in December paid \$235 million in cash to acquire faded search firm Inktomi. Overture recently spent \$177 million for the Web-search assets of Fast Search & Transfer and AltaVista, while Ask Jeeves (2002 revenues \$74 million, net loss of \$15 million) put up \$3.8 million for Teoma. Even Google's engineers admit Fast and Teoma deliver results comparable to theirs.

Google has bought some prizes of its own, including personalization technology that "learns" what you are interested in based on previous searches; and a company called Blogger, which helps people set up their own Web-based diaries, or Web logs. More "blogs" mean more content, yielding more pages on which to run ads and more links to other pages. The more links, the better Google's results. Most recently Google scored a company called Applied Semantics, whose content-scanning techniques can be used to tailor ads not just based on the words a user searches, but also on the actual pages he reads on the Internet. That buy was a double score for Google—Applied Semantics had been selling those services to Overture. In the week following the purchase, Overture's shares fell about 30%.

The need to acquire more tech could add to the pressure for Google to go public, so it could use its stock as currency. Both Brin and Page are daunted by the prospect of baring Google's secret financials and losing focus in the drive to boost profits every quarter. "I fear we'll grow shortsighted and lose the wider potential applications of our company," says Brin. "The biggest thing we'd lose is the opportunity cost of what we could do if we didn't go public."

But Google's growing ranks want it, Wall Street bankers yearn for it and clues hint that all of them will get it. In the overcrowded office of Sheryl Sandberg, the 33-year-old Adwords chief, sits a crimson lava lamp given to her by investment bankers at Morgan Stanley. Very hip, very Google-geist. The former U.S. Treasury official says with a laugh, "They have high hopes for us."

Downstairs, past a Google grand piano and a few big plastic balls, Chief Executive Schmidt convenes a meeting of two dozen managers for a project they refer to as "Keeping Eric Out of Jail." They are altering Google's billing and accounting systems to comply with the new Sarbanes-Oxley Act—a law that applies to all public companies but no private ones. It may take until October to comply, but Schmidt's urgency is palpable.

Every Friday he holds a companywide meeting, preaching to a cocky flock. Along with Brin and Page he talks business, technology—and attitude. He reminds these whiz kids to count on nothing. Remember the Netscapes, he exhorts, the high-tech stars that gained fans, made paper millionaires of the early staff and then burned up in the heat of competition. Just about everybody, save Google's massing rivals, hopes they're listening. **F**

KRYOGENIX



www.kryogenix.org/code/browser/aqgoogle/

Not strictly built from the Google program, the Google Art Creator immortalizes the art you make on a grid of 24x50 boxes and ten colors. The finished product is posted on Google Groups



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DIVERSITY

Introduction by Derrick Johnson • Produced & written by Jerry Bowles

Ethnic, cultural and racial minority communities in the United States are expanding rapidly in scope and consumer buying power. African-American, Asian-American, Hispanic and Native American populations combined are the emerging majority in many major U.S. markets and have a buying power of more than \$1 trillion. In addition, a growing influx of immigrants from central Europe and the Middle East continues to shift how diversity is perceived and how corporations communicate to each of these diverse audiences.

For corporate marketing executives looking to increase their companies' bottom lines by targeting these individual audiences, having multicultural and diversity competency and implementing tailor-made messages that communicate directly to each diverse market are essential. The numbers support the business case for such competency. Minority buying power has basically doubled since 1990 and is growing 65% faster than

U.S. buying power overall. Minority purchasing power is headed upward of \$2 trillion by 2015 and \$3 trillion by 2030, according to a Minority Business Development Agency report. Minority buying power accounted for 12.2% of the nation's total buying power in 2001, up from 10.6% in 1990. This contributed \$113 billion to the U.S. economy and sales for many of the corporations that targeted these audiences.

When a company's priorities do not include diverse business practices internally or externally, the cost to the organization can prove to be significant. Companies not only risk the negative public relations that involve allegations of discrimination but also can suffer a negative financial impact, including the loss of new customers in fast-growing emerging majority markets — which are proving increasingly loyal to organizations that, in their minds, "get it" by understanding their needs.

Each year, companies generate millions of advertising and public relations messages to enhance corporate reputation and increase brand market share. A company's ability to effectively connect with a diverse audience requires understanding that coalescing it into the general market can be ineffective and counterproductive. For companies to be most effective in their efforts, they must look to include in their marketing mix communications strategies that address the distinct cultural heritage, identities, needs and sensitivities of each diverse audience.

The companies represented in this special report are among those organizations that recognize the intrinsic value of having a business model that values and includes diversity.

Derrick Johnson is president of ConceptBlue, a leading, full-service multicultural marketing communications and public relations practice with offices in New York and Phoenix, Arizona; E-mail: dj@conceptblue.com.

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"100 Best Companies to Work For"

— *Fortune*®, 2002, 2003

"One of the Most Admired Pharmaceutical Companies in America"

— *Fortune*®, 2002, 2003

"Top 100 Companies for Working Mothers"

— *Working Mother*, 1998, 1999, 2000, 2001, 2002

"100 Best Places for Latinos to Work"

— *Hispanic Magazine*, 2000, 2001, 2002

At Pfizer, it's our passion for what we do that makes us
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hard to create a performance-based environment where people
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Jeep® Marketing Focuses

On the Urban Mindset

DaimlerChrysler's marketing strategy has shifted from specific multicultural targeting by segment to a more general urban marketing approach. This new idea in multicultural marketing allows a company to create campaigns that resonate with targeted ethnic groups and that also are able to cross over into the general market.

For example, the company's Jeep® brand is sponsoring advertising and promotional events around a new Hispanic romantic comedy, *Chasing Papi*, which stars well-known Hispanic personalities. An interesting twist is that the dialogue is in English, creating a situation where the movie can resonate with English-speaking Hispanics, as well as non-Hispanic audiences.

"This film represents a major studio entry into the Hispanic market, with Hispanic actors and a Hispanic director," says Jeff Bell, Vice President, Jeep. "The byproduct benefit of this effort is that this is urban focused and inclusive."

The company also is sponsoring 40 *Chasing Papi* Jeep Club Parties in eight cities during four weekends from April through mid-May. Salsa competitions and speed-dating games are among the events planned.

"These are the hottest clubs for Hispanic Americans and everyone living an urban lifestyle. This is our target market," Bell adds.

In addition to placing the Grand Cherokee in the movie, which opened on April 16, the Jeep brand has created a 30-second TV spot that mirrors the movie plot. The spots will air on network and cable TV.

DaimlerChrysler's multicultural and urban assignment agency is GlobalHue, a minority-owned, full-service marketing

communications company dedicated to cultural and multicultural audiences. GlobalHue's headquarters is in Southfield, Michigan. It also has offices in Los Angeles, Miami, New York and San Antonio.

Pfizer: Bridging the Health Care Culture Gap

The ability to communicate across cultures is important for most companies, but it is vital in the business of health care. Cultural and language barriers between health providers and patients can result in confusion and potentially serious misunderstandings on the part of patients. These communication "gaps" can have dangerous results: medication not being taken correctly or health conditions worsening to the point of a potentially avoidable hospitalization. Low health literacy — the ability to read and understand health information and use it effectively — can be a problem across all cultures, but minorities and those with language barriers are particularly at risk for adverse health outcomes.

"Pfizer Inc. has been committed to research on determining the causes of inadequate health literacy," says Forest Harper, Vice President of the Pfizer for Living Share Card™ program. "One of the most troubling findings is that an estimated 40% of all patients don't take their medicines as directed, often because they simply don't understand what they are being asked to do, particularly seniors. Barbara DeBuono, our senior medical director and former New York State health commissioner, has been very involved in developing ways to deliver health information to patients of different cultural backgrounds and educational levels so they will better understand how to use and benefit from medications."

Harper says that many of Pfizer's efforts to bridge cultural divides begin with inter-

nal cross-functional teams such as Pfizer Consumer Marketing Group and its Multicultural Business Team. One recent multicultural program was the "Know Your Score" men's health campaign supported by the Magic Johnson Foundation, Pfizer and the National Basketball Association. The event was designed to encourage men to take charge of their health by becoming informed about health screening measures, especially glucose, cholesterol, blood pressure and prostate scores. The program uses a wallet-size card to record health scores and explain tests.

"This program has been especially successful with African-American men who, for a variety of reasons, are less likely to have regular checkups or keep track of their health scores," Harper says.

Harper believes that public-private partnerships are important in helping to address the "health care culture gap." Last fall, the U.S. Department of Health and Human Services, ABC Radio Networks and Pfizer joined forces to mobilize grassroots communities and government organizations to encourage African-Americans to visit or make an appointment to visit their doctors. The 2002 "Take a Loved One to the Doctor Day" was one of the largest health care outreach initiatives for the African-American community.

Access to medicines is another critical health need. To provide solutions for many vulnerable seniors without drug coverage, Pfizer created the Pfizer for Living Share Card Program, which offers low-income Medicare beneficiaries without prescription drug coverage a 30-day supply of most Pfizer pharmaceuticals for just \$15 per prescription.

"This is a program designed to fill the gaps in coverage and access to medicine until the government can reform Medicare," Harper says.



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Wide Open Fo

Low costs and a highly educated labor force helped pro



1 Austin, TX

Population	1,313,000
Job Growth	3.1%
Income Growth	5.8%

The vast University of Texas system keeps Austin (and local firms like Dell, Motorola and IBM) supplied with a fresh crop of college grads and Ph.D.s each year. UT's main campus located here, enrolls 49,000 students, 25% in graduate and professional degree programs. And if you consider net migration to an area as an indicator of how alluring it is, Austin shines, ranking third in the country, at 2.7% a year.

Business

in metro areas to the top. By Kurt Badenhausen

These are the worst of times for many metro areas in America. By dint of a 4% drop in tax receipts, deficits now total \$95 billion for the 50 states, with California leading the way (a \$31 billion shortfall), followed by New York (\$12 billion). A lot of it comes down to lost jobs: The national unemployment rate recently jumped to 6%, from less than 4% three years ago. But what's bad news for cities and job seekers may be a great opportunity for companies looking to lower their costs of doing business—as Toyota did in Huntsville, Ala. (*see p. 136*)—and hire from a pool of talented workers.

To reflect these changing times, we changed the way we compile our ranking of Best Places for Business and Careers, turning to analysts at Economy.com, the West Chester, Pa.-based economic and financial research firm. In this, our fifth annual survey, we still kept a careful eye on income and job growth. But because businesses are watching their expenses so scrupulously—and find it difficult to raise prices—we gave special attention to Economy.com's cost-of-doing-business index, which includes the prices of labor, energy, taxes and office space. We also looked closely at the qualifications of the available pool of labor, taking into account each area's concentration of college graduates and Ph.D.s. For the first time our rankings also characterized the attractiveness of a region by figuring in crime rates, housing costs and net migration. For detailed information on each of the 150 largest metro areas, go to www.forbes.com/bestplaces. There you will also find a ranking of 168 smaller metro areas, along with information about them.

Boise, ID



Population 452,000 Job Growth 3.3% Income Growth 2.9%

With costs 14% below the national average, Boise has been able to attract and keep tech titans Micron Technology and Hewlett-Packard. The tight labor supply has loosened over the past three years, with unemployment jumping to 5.8% from 3.3%.

Population 1,232,000 Job Growth 2.1% Income Growth 2.9%

Raleigh-Durham's Research Triangle Park is fed by three top-notch institutions (Duke University, University of North Carolina and North Carolina State), resulting in one of the highest concentrations of college grads and Ph.D.s in the country. The high proportion of university employment in the area also significantly reduces employment volatility.

3 Raleigh-Durham, NC



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4 Atlanta, GA

Population 4,263,000 Job Growth 2.1% Income Growth 3.6%

The telecom downturn hit the region hard, but home building remains strong. For 11 straight years the Atlanta metro area has led the nation in housing construction. Atlanta is host to 14 companies in the Forbes 500, behind just New York, Houston and Chicago.



6 Provo, UT

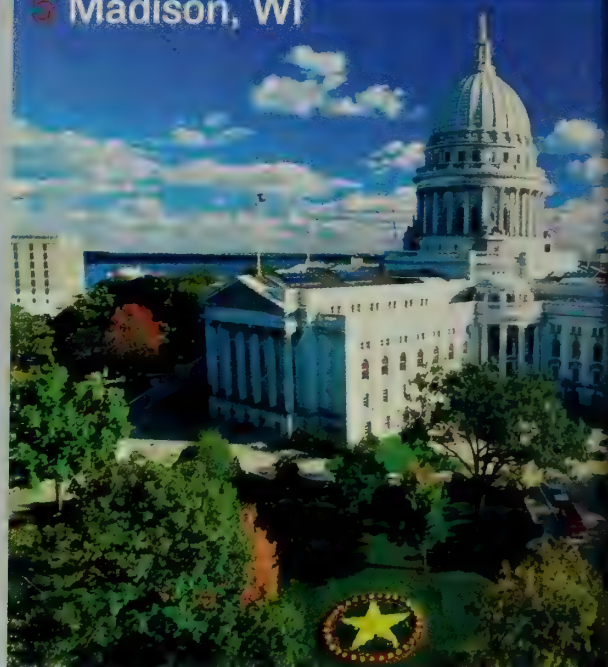
Population 377,000 Job Growth 2.3% Income Growth 3.2%

Provo is a magnet for much of Utah's high-tech activity, fueled in part by the presence of Brigham Young University. An added bonus for executives looking to relocate: Some of the best skiing spots in the U.S., including Alta, Park City and Snowbird, are just a short drive away.

Population 433,000 Job Growth 2.1% Income Growth 3.9%

The idyllic home of the University of Wisconsin has the highest concentration of Ph.D.s in America—2% of the adult population have doctorates—an irresistible draw for companies interested in drug development services and stem-cell research.

5 Madison, WI



7 Omaha, NE

Population 723,000 Job Growth 1.7% Income Growth 5.4%

Warren Buffett's hometown offers an ideal climate for nearly everyone: high income growth coupled with some of the lowest business costs around (19% lower than the national average).

8 Des Moines, IA

Population 463,000 Job Growth 1.1% Income Growth 4.9%

What's not to like? Des Moines' per capita income of \$33,200 is \$4,000 higher than Iowa's mean, but business costs are still 12% below the national average. Unemployment: currently 4.1%.

9 Dallas, TX

Population 3,646,000 Job Growth 1.9% Income Growth 3.6%

The long wild ride, courtesy of the telecom and energy industries, finally seems to be calming down. Dallas remains a bedrock of Southwest strength for a range of financial services.

10 Washington, DC-Northern VA

Population 5,054,000 Job Growth 2.4% Income Growth 3.8%

Talk about polarization: This area has the highest business costs of our top ten metros (6% above the national average), but a highly educated labor supply (42% have college degrees).



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San DNAgo



They teach, found companies, share ideas: Steve Dowdy and Ivor Royston.

Thanks to a fruitful partnership of academia and private enterprise, a vibrant biotech industry keeps on replicating itself.

BY KERRY A. DOLAN

For Steven Dowdy, moving to San Diego was an easy decision. As an assistant investigator for the Howard Hughes Medical Institute and an assistant professor of pathology and medicine at Washington University in St. Louis, he had lots of offers. The one from the medical school at the University of California, San Diego wasn't the highest paying, but it offered what he says money couldn't buy: a phenomenally interactive and intellectual environment. "I'll never go anywhere else," says Dowdy, 43, who took the job at UCSD two years ago. "It's scientific paradise, as far as I'm concerned."

Things have turned out well. In January last year he gave a lecture at the UCSD Cancer Center on "in vivo protein transduction," a means to deliver biologically active molecules, such as therapeutic peptides and proteins, inside the cell. Two senior professors, both of whom had turned their research into biotech companies, approached Dowdy afterward and told him he should start a company. Four days later he met with San Diego venture capitalists introduced by his colleagues. By the end of March the company, Ansata Therapeutics, had raised \$5 million from Avalon Ventures and Domain Associates for a 50% stake.

Today Ansata's 15 employees are researching new classes of drugs that could attack cancer or neurodegenerative diseases like Parkinson's. Dowdy chairs the scientific advisory board while teaching and doing research. When he visits Ansata's offices, he revels in the spectacular view of the Pacific Ocean across the street.

Dowdy is one of thousands of pioneering researchers drawn to the biotech mecca of San Diego. The more there are, the more that others want to come, just like diamond dealers crowding atop one another on 47th Street in Manhattan. The seeds for this conglomeration of scientific talent were a cluster of research institutes like Salk, Burnham and Scripps, all near La Jolla, plus the University of California campus. The academic research has in turn spawned a population of venture-capital-funded work in life science.

San Diego is not the largest biotech center in the country; the San Francisco Bay Area and the Cambridge/Boston envi-

MICHAEL GRECCO / ICON FOR FORBES

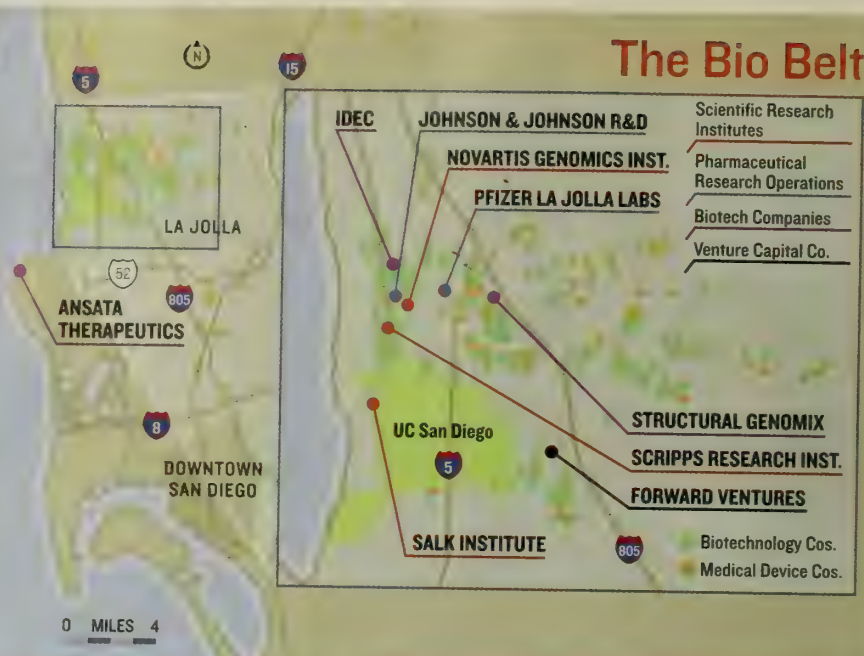
BEST PLACES

rons still have more and larger companies (see table, right). But the 92121 zip code—located some 15 miles north of downtown, east of the rolling mesas of La Jolla—boasts 89 biotech companies, the most densely packed cluster in the U.S., says Juan Enriquez, director of the Life Science Project at Harvard Business School. A distant second: South San Francisco, home of industry pioneer Genentech and 32 other biotech outfits.

Crowding has benefits. "The ability to collaborate is inversely proportional to the distance that separates you," explains Edward Holmes, the energetic vice chancellor for health sciences at UCSD. Professors at the medical school, for example, may also hold faculty positions at the Salk or Scripps institutes, as well as sit on the scientific advisory board of a biotech startup. Money-making is not frowned upon: Many of the 290 faculty at Scripps consult on the side.

Scientists, entrepreneurs and venture capitalists cross paths not only at lectures but also at social events like the UCSD Cancer Center's annual Luau and Longboard Invitational—yes, surfing to benefit cancer research. Scientific banter arises during dog walks and on the sidelines of kids' softball and soccer games.

An astonishing number of ideas and scientists, as well as most of San Diego's 499 biotech and medical device companies, have roots in UCSD or places like Scripps and Salk. "There's a spirit you just don't find on the East Coast," says Holmes, who was lured from Duke University. "Out here the sin is not to try. People want to do bold experiments here." Since it opened in 1968, the medical school has generated 65 startup companies. Of those, 30% have gone public or were acquired for an average of \$150 million. (There are plenty of flops, too: Cytel, for example, shut down its main business in 1999 after clinical trials for its anti-inflammatory drug failed.)



Where the Action Is

	LIFE SCIENCE COMPANIES	TOTAL EMPLOYEES	TOTAL REVENUE (\$BIL) ¹	COST OF DOING BUSINESS ²	VENTURE CAPITAL RAISED (\$MIL) ³
San Diego County	499	29,500	\$1.8	105.5	\$544
San Francisco Bay Area	819	85,950	4.1	136.4	1,216
Boston Metro Area	485	47,370	6.7	119.1	361

¹In 2000. ²U.S. average index =100. ³By biopharmaceutical and medical device firms in 2002. Sources: California Healthcare Institute; MassBiotechnology 2010; Ernst & Young/VentureOne; Massachusetts Technology Collaborative; MassDevelopment.

One of the best-known experiments dates to 1978. That's when UCSD oncologist Ivor Royston and research assistant Howard Birndorf founded Hybritech to explore using monoclonal antibodies to fight cancer. The unintended consequence: After Eli Lilly acquired Hybritech for \$400 million in 1986, the top guys all left to start their own firms. "It was like an explosion," says Royston.

The most successful offspring is Idex Pharmaceuticals, which, with help from Genentech, developed Rituxan, a monoclonal antibody for non-Hodgkin's lymphoma. Rituxan pulled in \$1.1 billion in revenue last year, making it the biggest-selling cancer drug worldwide.

Three miles up the road from UCSD, chemist Richard Lerner, president of Scripps, has assembled a powerhouse of 1,000 Ph.D.s to create the largest private, nonprofit scientific research organization in the country. Among their projects: developing a hybrid anticancer compound that combines an antibody with a cancer-targeting small molecule and using algae

to quickly grow human antibodies that zero in on herpes. Its \$290 million budget comes mainly from National Institutes of Health grants. "It has a great reputation as one of the premier biomedical institutions," says Novartis' head of corporate research, Paul Herrling. Novartis has committed \$20 million a year to Scripps since the mid-1990s; in exchange it gets first crack at licensing up to half the discoveries at Scripps.

Big pharma is here to stay. Pfizer, Novartis, Johnson & Johnson and Merck are expanding R&D in areas ranging from cancer drugs and neuroscience to high-speed technologies for mapping disease-causing proteins. In late April San Diego-based Structural Genomix announced a partnership with Eli Lilly; it will build a structural biology lab in La Jolla to support Lilly's drug discovery programs.

J&J got in early with a \$100 million grant spread over 1982-96 to underwrite research at Scripps in exchange for exclusive rights to discoveries. Payoff: the 1992 launch of Leustatin, a drug to treat hairy-



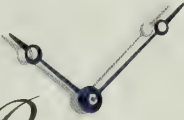
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Alexandre Dumas,
"The Count of Monte Cristo", 1845



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cell leukemia. In 1996 J&J opened a small genomics and bioinformatics research center in La Jolla, since expanded into a fully integrated drug discovery site.

Pfizer, which acquired San Diego biotech firm Agouron Pharmaceuticals when it bought Warner-Lambert in 1999,

is building 800,000 square feet of space for an R&D staff of 1,300 on La Jolla's Torrey Pines Mesa. The scientists are working on treatments for AIDS, diabetes and obesity, among other things. San Diego is Pfizer's center for structure-based drug design, which uses computers to map disease-causing proteins and suggests ways to thwart them.

The agglomeration of talent feeds on

itself. Last year the Sidney Kimmel Cancer Center lured Dr. Albert Deisseroth, former head of oncology at Yale, to become its new president. "This place is like a giant collective intellect," he boasts, noting that Sydney Brenner, a Nobel laureate on the Salk faculty, sits on his scientific advisory board. Scripps is home to a trio of Nobel laureates. Three years ago Novartis was able to recruit Peter Schultz, a chemist from UC, Berkeley, to head its Genomic Institute in La Jolla. In addition to running an unusual research lab with a private-sector tilt, Schultz says part of the attraction was being able to move his academic lab to Scripps, where he has a faculty appointment. He hasn't had any trouble finding 300 people to work at the Novartis institute. "It's just a great place to recruit smart people," he says.

These scientists are getting results. Between 1988 and 1997 San Diego clocked a 19% growth rate in biotech and drug patents awarded, the fastest growth among biotech hubs. UCSD is the fifth-largest recipient of NIH funds in the U.S. at \$217 million last year, and its medical school attracts the highest amount of federal funding per faculty member (\$215,300). Private money is also pouring in. Last year San Diego biopharma and medical device companies raised \$554 million in venture capital, compared with Boston's \$361 million and the Bay Area's \$1.22 billion, report Ernst & Young and VentureOne. A quarter of the biotech firms in San Diego are less than three years old, a sign of vigor despite the economic slump, notes an Ernst & Young/Biocom survey.

The San Diego biotech industry does face challenges. Rising real estate prices make the cost of manufacturing prohibitive for some companies. At rush hour, traffic can be slower than evolution. The cost of living, though still lower than in the Bay Area, is 16.4% higher than in places like Research Triangle Park in North Carolina.

But then there's the weather. San Diego is sunny an average 330 days a year. Scripps' Richard Lerner is quick to add: "We have almost as many bookstores as surf shops."

Cluster Creation

What does it take to foster the next boomtown?

BY ROSS C. DEVOL

It's obvious why clusters formed around, say, Houston or Toledo 100 years ago. That's where the raw materials were for, respectively, the oil-and-gas industry and for auto parts (glass and rubber). It's not so obvious why, for example, northern New Jersey became the magnet for pharmaceutical companies or Seattle the locus of software development. More to the point, what's it take to build vibrant centers of interrelated industries that foster wealth creation—and can you predict which regions have the ability to become the next big cluster? Consider these ingredients:

- **INNOVATION.** Because knowledge is shared more efficiently in close proximity, the resulting economic activity tends to cluster geographically and is less likely to escape to other regions. A leading measure is patenting activity. At 2.3 per thousand workers, Rochester, N.Y. is number one among the nation's 50 largest metro areas (think Kodak and Xerox: plenty of ideas, if not successful applications), followed by the San Francisco Bay Area (1.5), Austin (1.4), Minneapolis (0.9) and San Diego (0.8). Another critical metric: academic R&D relative to total employment. The leaders are Raleigh-Durham, Boston, greater Washington, D.C., Austin and Salt Lake City.

- **HUMAN CAPITAL.** The talents and experience of people draw ambitious companies. A composite score based on a weighted average of advanced and bachelor's degrees ranks greater Washington, D.C. as the most educated metro area in the U.S., followed by San Francisco, Denver, Minneapolis and Austin. Looking at the percent of the work force in managerial, professional and technical jobs, you get the following: Washington, D.C. (48%), Hartford, Conn. and Austin (46%) and Minneapolis-St. Paul and Denver (45%).

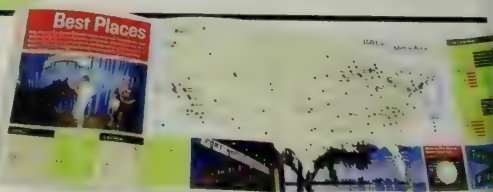
- **GLOBALIZATION.** Success turns, in part, on the ability to exploit international opportunities. Consider two measures. The first is the share of recent immigrants as a percent of the working population: San Francisco (26.1%), Miami (16.8%), New York (15.0%), Los Angeles (11.8%) and San Diego (5.3%). The second is export sales per manufacturing employee: Seattle (\$129,000), Miami (\$127,000), Richmond, Va. (\$86,000), San Francisco (\$80,000) and Houston (\$75,000).

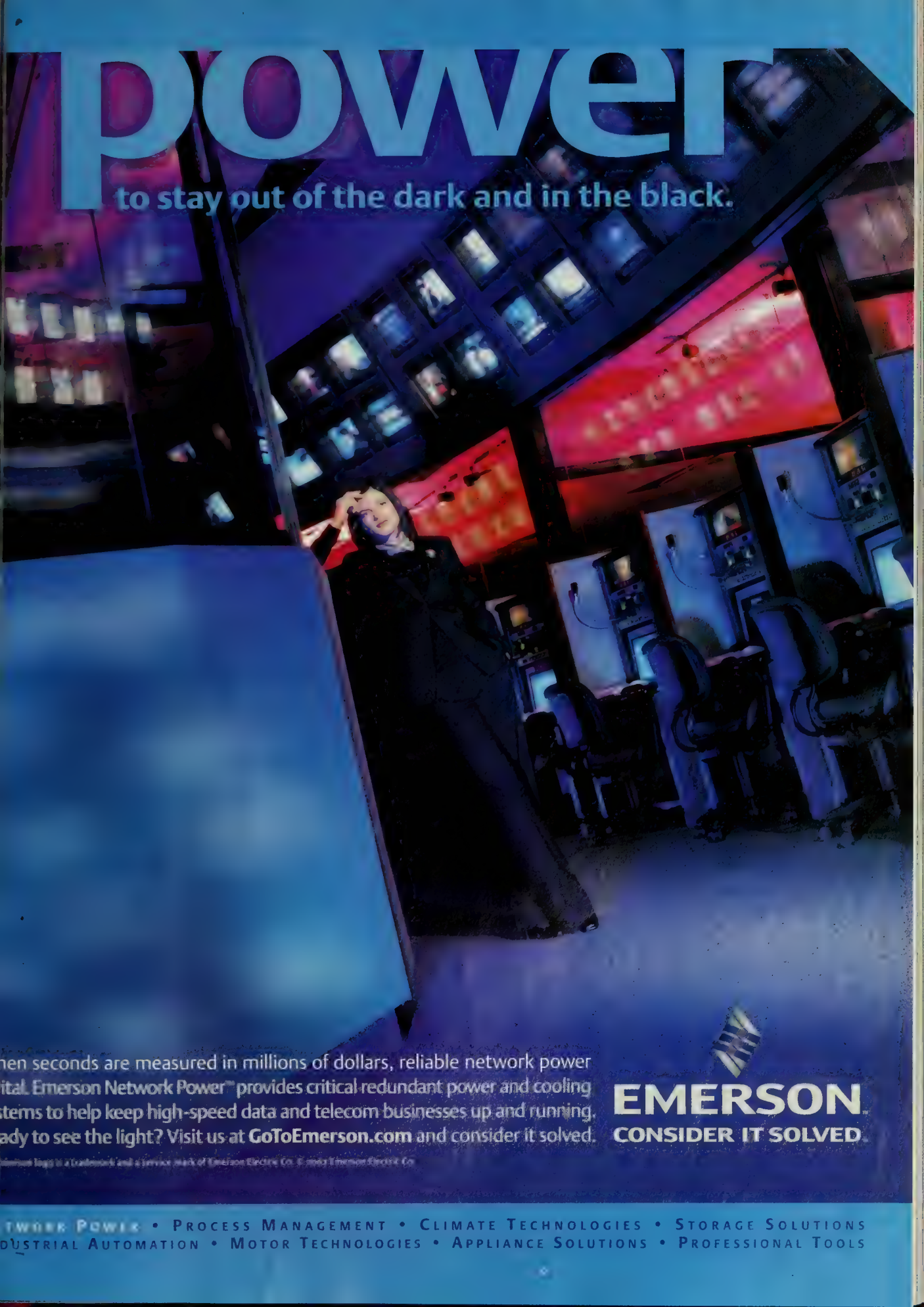
- **DYNAMISM.** A key to renewing and sustaining growth is the ability to start and sustain firms. Aside from the number of new businesses created, a powerful measure of entrepreneurial activity is the number of initial public offerings per \$10 billion of gross metro product. Leaders: San Francisco, Seattle, West Palm Beach, Boston and Austin. Considering the number of jobs in fast-growing companies as a percent of total employment: Orlando, Las Vegas, Charlotte, San Francisco and Phoenix. **F**

Ross C. DeVol is the Milken Institute's director of regional and demographic studies.

Forbes

Go to www.forbes.com/bestplaces for a comprehensive list of the best business-friendly places in America. But first, go to page I39 for a map and a dissection of the leaders and losers.





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WHAT TO LOOK FOR IN A RELOCATION DESTINATION

BY ROBERT ADY



Navigating the maze of potentials for a new facility location is neither easy nor expedient — especially when there are literally thousands of sites throughout the world to choose from. Matters become even more complicated when nearly every community touts itself as low cost with superior access, high quality of life and the most experienced, productive and copious workforce in the world.

Almost every company develops a list of key location criteria that it will use to determine whether a specific community will meet the requirements of the proposed operation. Regardless of the lists, how long they are or what factors are included, there are certain overriding characteristics that make a community worthy of initial consideration for a project.

Is Anyone in Charge?

When evaluating whether or not a community is prepared for a new investment, the first move is to determine if there is a leadership team in place within the community that can assist with all phases of the corporate relocation process.

The type of economic development organization in place may provide a clue as to who is really in charge within a community. Sometimes it's the local chamber of commerce; other times it's the local or regional government. Occasionally it's a combination of the public and private sectors operating under an umbrella economic development organization. If there is any question as to who is in charge within a community, it may be time to eliminate that location from further consideration.

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They Know Their Product?

community that does not have a complete and thorough understanding of its "product" — i.e., its economic characteristics — is difficult if not impossible to evaluate. Site seekers have neither the time nor the patience to uncover information regarding the community, its businesses and its local characteristics. Current data relevant to the site selection process could be available on a community's Web site and in its brochures. Remember that in order to make a meaningful judgment regarding a community's suitability for a new facility, the site seeker must have current, reliable and precise data.

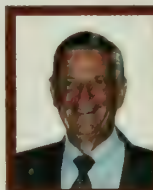
History Important?

Every facility location has its own unique personality, and it evolves at a specific point in time.

The goal is to not simply look at the current situation or the current statistics but to place these into a long-term context as a way of predicting the future. After all, the facility that is being sited will, with hope, be operating well into the future. There are two methods for conducting this kind of evaluation —

one is to check the past, while the other is to review the community's plans for the future. Both data sources should be readily available. If the community's past and/or its plans for the future conflict with the goals of the operation that is being sited, these conflicts must be reconciled. Otherwise, elimination of the community should be considered — if not immediately implemented.

There are myriad other factors that can portend future troubles for the site seeker regarding a particular community. The ones described here, however, are the most frequent — and blatant — of the lot. Whether or not these problems can be reconciled usually comes down to the willingness of the company to educate the community. Is it worth it? That really depends on both the company and the community. ■



The former president of PHH Fantus Consulting, Robert Ady has identified prime locations for more businesses in the United States than any other person. He has been quoted in *The Wall Street Journal* and *The New York Times* on topics such as global competition and business location trends.

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Critical Mass

What makes Huntsville, Ala. such a great place for an electronics company? The fact that there are a lot of competitors nearby.

BY TOMAS KELLNER

LOOKING DOWN FROM THE TOP OF MONT Sano onto Huntsville, Ala., you can plainly see that the tallest steeple in this Bible Belt city doesn't belong to a church. It's attached to a model of the Saturn V rocket that launched men to the moon.

Huntsville has good reason to worship science. Science—that is, high-tech work—keeps a seventh of the work force here busy. That's 26,000 positions, including the ones at the National Aeronautics & Space Administration. They are the jobs that states kill for and they have lifted the median family



Haven for a high-tech maven: Adtran's Mark C. Smith.

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household income to \$61,000, 12% above the national average.

Science has also allowed entrepreneurs like Mark C. Smith to flourish. Adtran, which makes modems and other gear to send voice and data signals down phone lines, did \$346 million in sales last year and has never lost a penny since Smith founded it 18 years ago. His stake is worth \$535 million.

The prosperity of Adtran and that of Huntsville run on parallel tracks. Once the state capital and a big cotton-gathering center, the city produced the Confederacy's secretary of war who ordered the attack on Fort Sumter, S.C. After the Civil War the city merely crept along until World War II, when Congressman (later Senator) John Sparkman used his position on the Military Affairs Committee to land Huntsville an Army base. The resulting Redstone Arsenal loaded artillery shells with mustard gas.

The chemical weapons—the U.S. hadn't yet signed the Geneva Protocol banning their use—never reached their intended target; instead, the Germans came to Huntsville. Wernher von Braun and his V-2 rocket builders in Nazi-controlled Peenemunde surrendered to the Americans in early 1945 and 118 of them were sent to Fort Bliss, Tex. "for later use," recalls Ernst Stuhlinger, 90, who was one of that gang.

The Germans didn't wait long. With the onset of the Korean War in 1950, "we got an order to build a rocket similar to the V-2, only bigger and better, and do it quickly," says Stuhlinger. The Germans were moved to Huntsville. They delivered their rocket in 1953, too late for the war, but in time for morphing Redstone into NASA. Von Braun and his crew found Huntsville, in the foothills of the Smoky Mountains, not unlike the Rhine River valley of their fatherland and settled in. They started an orchestra, a ballet company and an opera company. The rocket builders also convinced the largest private contractors of the time—Boeing, Sperry, IBM, Thiokol and Northrop among them—to put down roots in Huntsville.

Mark Smith, meantime, was a teenager growing up in Birmingham, 100 miles to the south. He spent his evenings building



Shooting stars. Wernher von Braun's model of his space shuttle at the U.S. Space & Rocket Center in Huntsville.

and playing with a ham radio. In 1958, as a high school senior, he made a digital device that measured distances using beams of light, and won first place in a science fair. His prize: a handshake with Von Braun. Smith was a brash kid, and while he had the German's attention he asked for a job.

Smith went to the Georgia Institute of Technology and spent three summers in NASA rocket labs in Huntsville and Cape Canaveral, Fla. The U.S. government was spending lavishly to overcome the Russians' lead in space. As a result, Smith was working with such revolutionary technol-

ogy as transistors. "We had six of them and every night we would lock them up in a safe," he recalls. His gadgets measured vibration, acceleration and other data from the Saturn V rocket.

Smith got a bachelor's degree in electrical engineering and joined NASA full time in 1961. There he met 27-year-old rocket scientist Olin King. When King left the same year to start Space Craft Incorporated Systems (SCI), an electronics and computer parts manufacturer, Smith went with him. "The government ordered devices by the dozen," he says. "I thought you could make a better business selling to

commercial buyers." (King, who lives in an antebellum house in Huntsville's Old Town, merged SCI with the electronics maker Sanmina in 2001, forming a company that would generate \$8.7 billion in 2002 sales.)

Watching King succeed, Smith wanted his own company. In 1968 the Federal Communications Commission ordered AT&T to open its network to modems. (Until then, Ma Bell had argued the devices might damage its lines.) Smith tapped a partner and started Universal Data Systems with \$30,000 in savings. It made modems that could convert 1,200 bits of data per second into analog phone signals.

There weren't a lot of buyers. For the first two years the pair worked without

salary from a friend's office. In 1972 Southern Co., an Alabama utility, put in a \$50,000 order for modems to link its operations. Good timing. After the moon landing, NASA's Apollo program fell off sharply, and Huntsville was awash with highly trained engineers, only some of whom could be absorbed by mainstays like IBM and Northrop.

Business grew to \$12 million in sales by 1980, when Smith decided to sell out to Motorola, pocketing most of the \$21 million price tag in stock. He spent the next six years there as a vice president. But he



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BEST PLACES

was itching to go off on his own again. By 1985, with stock now worth \$100 million, Smith decided the time was ripe.

He and partner Lonnie S. McMillian launched Adtran, investing a total \$7 million, to produce digital modems. "Modems were something we understood, but we didn't want to compete with UDS and Motorola," Smith says. Adtran's first products were 56-kilobit and 1.5-megabit devices sold to telecom carriers. Today, clients for its modems, digital subscriber line multiplexers (which fold lots of small signals into one big one) and related gear include AT&T, Sprint, Verizon and assemblers of electronic equipment like Ingram Micro.

Adtran is one of 220 high-tech businesses in Huntsville's Cummings Research Park. The 3,800-acre parcel, purchased by the city and the University of Alabama at the city and the University of Alabama at Von Braun's behest, is home to offices of Boeing, Lockheed Martin, Motorola, Raytheon, Hewlett-Packard and Xerox. Plenty of cross-fertilization goes on. "Technology companies are like restaurants," Smith explains. "They work better when they are bunched together." (For a vivid demonstration of another kind of tech cluster, see page 122.) The park's critical mass gives Adtran easy access to a variety of suppliers, including the companies that make semiconductor chips for its modems.

About half of Huntsville's business comes from government contracts. Boeing built the Spacelab module for the International Space Station here; Northrop Grumman and Lockheed developed the Hellfire missile used against Iraq's Republican Guard. Federal dollars have left Huntsville well sheltered from recessions. The city's unemployment rate is 4.2%, compared with 6% for the nation.

The pool of high-tech companies means constant demand for skilled labor. Smith courts the top 5% of graduates from the University of Alabama in Huntsville, Alabama A&M, and nearby technical colleges. He sponsors two \$55,000 scholarships for the best engineering graduate students and offers part-time jobs to those working on their master's.

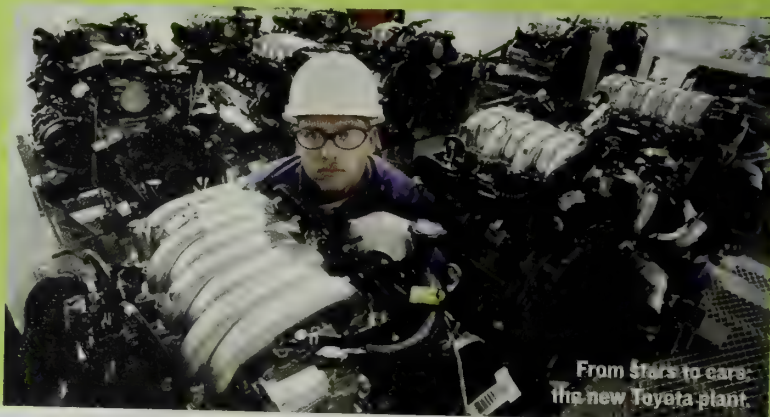
Of the 300 engineers Smith has hired

Engine of Growth

Talk about accommodating. When Huntsville Mayor Loretta Spencer heard in the fall of 2000 that Toyota was looking for a site for a \$220 million, 400,000-square-foot plant to make V-8 engines for its new Tundra truck, she got into high gear. She convinced state officials to commit \$400,000 for an access road and \$6 million for a job-training program. The city was also willing to sell Toyota the 200-acre site at a \$1 million discount (\$5,000 an acre), offered preconstruction work worth \$3 million and put up a \$750,000 road inside the plant complex. Total goody bag: \$29.9 million in incentives, or \$85,000 for every job created, including a tax break worth \$15 million.

Toyota had considered other locales—Clarksville, Tenn. among them. But it liked the Huntsville deal. The plant opened last month, providing 350 nonunion jobs paying an average \$55,250. Schools will get an immediate \$6.3 million from increased property taxes, thanks to increased value of the real estate; state and local revenues will rise an estimated \$136 million over 20 years. Mayor Spencer thinks she's onto something: "Now we want a silicon chip plant."

—T.K.



From stars to ears: the new Toyota plant.

through the top 5% program since 1986, only 30 have left. "It's motivating to help design a product that becomes an industry standard," explains Smith. Cheap housing helps, too. A 2,500-square-foot home goes for as little as \$100,000—6% below the national average.

"I've never heard of a local entrepreneur selling out and leaving," says Ralph Petroff, chief executive of Time Domain, a company that makes ultra-wide-band "radar vision" devices that let soldiers "see" through walls. Venture capital on the scale seen in Menlo Park—billion-dollar pools put up by institutional investors—is not in evidence here, but there is a network of angel investors. One of them is former NASA programmer Remigius Shatas, who, with his partners, typically puts up between \$10,000 and \$1 million.

Three years ago Smith was diagnosed with throat cancer. He took a four-month leave from the company to get treatment, and returned just in time to watch Adtran's

stock plummet from a \$79 high to \$17 in early 2001. Adtran was losing customers. Internet service companies were going bust and telecoms were cutting their capital budgets.

Smith needed to save money fast. In October 2001, reluctant to let his best engineers go, Smith chose to cut paychecks for everyone making more than \$25,000, lopping off 35% for officers. Those cuts and nickel-and-dime economies took \$20 million out of annual costs. A year later Smith reversed the pay cuts. "That whole experience strengthened our company," he insists. Apparently so. In April 2003 the company reported a quarterly profit of \$10.5 million, up 143% from 2002, on sales of \$86 million, up only 3%. Smith says he's now strong enough to steal business from moneylosing competitors like Tellabs, Westell Technologies and ADC Telecommunications. Huntsville stands a good chance of keeping its unemployment low for years to come.



Best Places

What makes a region attractive? Depends on your perspective. Companies like areas with low taxes, low costs of doing business and a hungry, well-educated work force. Employees look for places with job growth and rising incomes, as well as plenty of amenities. The tradeoff: Strong growth almost always means a higher cost of living.



Safety

TOP	LOCATION	CRIME RATE ¹
1	Middlesex, NJ	2,203
2	Ventura, CA	2,209
3	Appleton, WI	2,365
4	Monmouth, NJ	2,417
5	Orange County, NY	2,534
BOTTOM		
146	San Antonio, TX	7,043
147	Corpus Christi, TX	7,130
148	Memphis, TN	7,330
149	Miami, FL	7,671
150	Tucson, AZ	7,685

Per 100,000 residents. ¹100 means the median buyer can afford to buy 100% of the median-price home in the area.

Shelter

TOP	LOCATION	HOUSING AFFORDABILITY ²
1	Syracuse, NY	194
2	Rochester, NY	194
3	Little Rock, AR	191
4	Buffalo, NY	190
5	Wichita, KS	189
BOTTOM		
146	San Diego, CA	61
147	San Francisco, CA	59
148	New York, NY	57
149	Santa Barbara, CA	55
150	Salinas, CA	49

²Ph.D.s per 100,000 residents.

Education

TOP	LOCATION	ADVANCEMENT ³
1	Madison, WI	
2	Raleigh-Durham, NC	
3	Lansing, MI	
4	Washington, DC	
5	San Francisco, CA	
BOTTOM		
146	York, PA	
147	Youngstown, OH	
148	Visalia, CA	
149	Rockford, IL	
150	Hickory, NC	

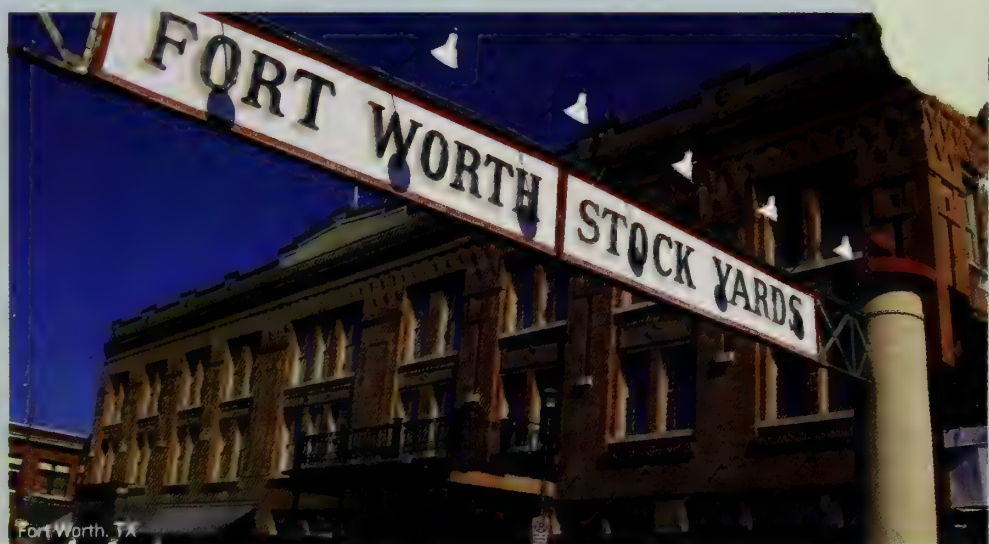
Sources: Economy.com; FBI Index of Crime;



OS

LOCATION	UNEMPLOYMENT
Madison, WI	2.6%
Des Moines, IA	3.1
Knoxville, TN	3.4
Columbia, SC	3.4
Sarasota, FL	3.5
Modesto, CA	11.0
Bakersfield, CA	11.3
McAllen, TX	12.8
Fresno, CA	13.9
Visalia, CA	15.4

ureau of Labor Statistics.

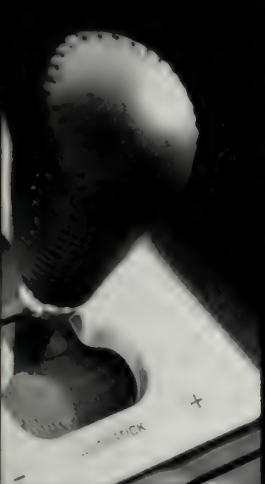




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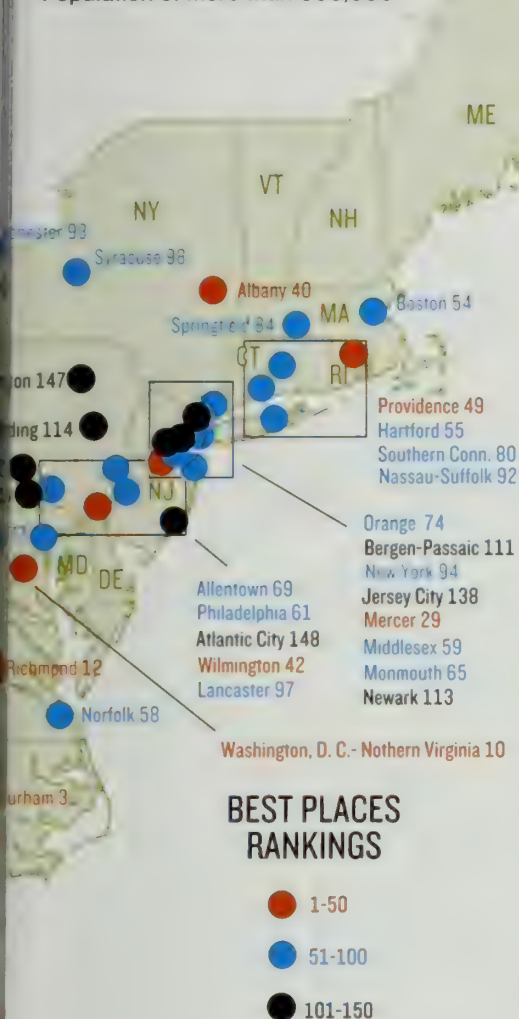
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COST OF LIVING

	% above national average
San Jose, CA	50.3%
San Francisco, CA	46.2%
Salinas, CA	30.6%
Boston, MA	28.5%
New York, NY	27.7%

13.7%		Peoria, IL
13.4%		Davenport, IA
13.4%		Saginaw, MI
12.7%		Fort Wayne, IN
12.5%		Brownsville, TX

% above national average

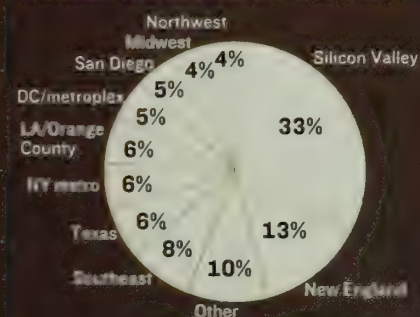
City	Percentage
New York, NY	31.9%
Boston, MA	21.7%
Bergen-Passaic, NJ	17.5%
Newark, NJ	16.5%
Monmouth, NJ	16.3%

18.9%	Tulsa, OK
18.8%	Omaha, NE
16.6%	Oklahoma City, OK
15.3%	Lexington, KY
14.2%	Boise, ID

Source: Economy.com.

Where the \$21.2 Billion in Venture Capital Goes

Investment as a percentage of 2002 total



Source: PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree Survey.





CHRYSLER



CONFIDENCE

Economic Death Valley

Why business in Fresno is shriveling like a California raisin.

BY LYNN J. COOK



ONCE THE DREAMLAND OF OKIES fleeing the Dust Bowl, the San Joaquin Valley is now something of an economic nightmare. Until 2001 Fresno, the county seat, was the top farming county in the U.S., measured by crop value. It produced \$3.2 billion in crops—from cotton to collard greens—which sounds pretty good. But compare that with an inflation-adjusted \$3.4 billion in 1973 and you get some idea of how stagnant the ag industry is in this California valley town. The future looks as hazy as the downtown horizon at noon: Competition from the Third World is causing havoc with prices, migrant farm work leaves vast swaths of the population unemployed for months at a time and environmentalists seem hell-bent on regulating farmers out of existence.

Thanks to a trinity of highs—taxes, business costs and crime—as well as a dearth of cheap housing and skilled labor, Fresno gets our booby prize this year. The metro area of 942,000 ranks 146 out of 150 on our list of Best Places to do business, putting it in the company of burnouts like

Scranton, Pa. and Atlantic City, N.J.

At least one anchor producer, who once ruled central California, is getting the hint and getting out. The biggest, cotton and cattle powerhouse J. G. Boswell Co., has moved many operations to Mexico, where farmhands work for pennies on the dollar, and to Arizona, where land is cheap. “Those that are capable of doing it are leaving,” says Kenneth Grimes, a Fresno-based farm liaison for the U.S. Department of Agriculture. “If it isn’t because of labor issues, it’s because of water.” With an average rainfall of just 10 inches per year, Fresno farmers must pay for high-tech irrigation.

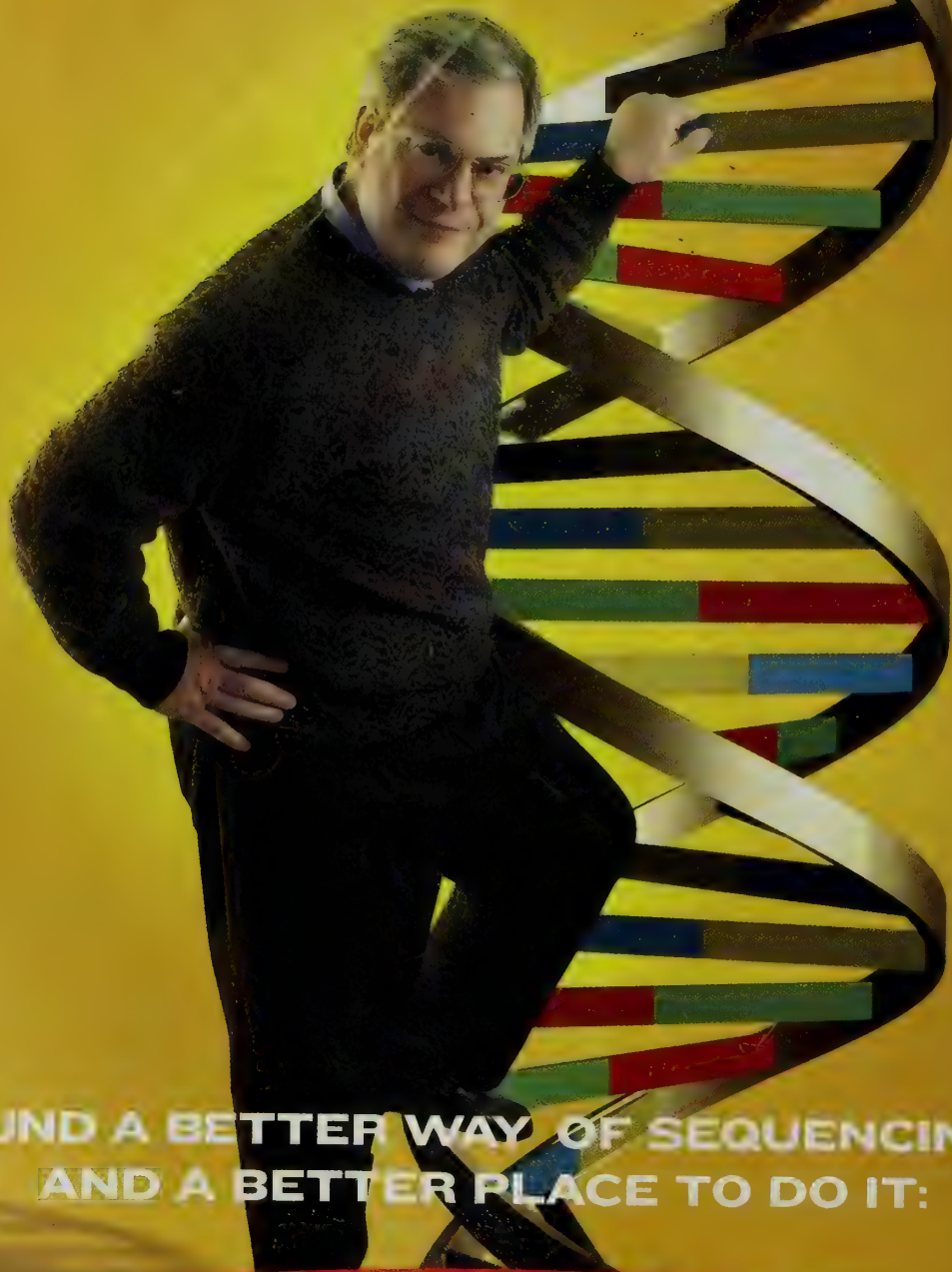
Growers who were getting \$1,000 a ton for Thompson seedless grapes four years ago are lucky to get \$400 today, courtesy of Turkish farmers flooding the market with imported raisins and California growers overplanting wine grapes. Then there is the assault from the greenies. In Fresno’s surrounding counties, the Center on Race, Poverty & the Environment has used lawsuits to halt 125 new and expanded dairy projects since 1998, projects that would have increased the state’s milk cow popula-

tion by a third. No letup from the Environmental Protection Agency, either. Even though the agency’s numbers show that ag-related air pollution accounts for just 3% of Fresno County’s problem, the USDA is forced to assess every private dirt road to determine whether it’s used by motor vehicles at least 50 times a day. If so, the farmer has to pave it.

Some problems just seem intractable. Over the last five years net migration into the area has been flat, and unemployment stuck at double digits—13.9% for 2002. Not that there’s a great labor pool to pick from: Only 16.8% of Fresnoans over 25 have a college degree. A terrifying 33% don’t have high school diplomas, double the percentage of high school dropouts living in the Bay Area. Even a traditional strong point—affordable housing—has dried up. Just ask Fresno Mayor Alan Autry, who quarterbacked for the Green Bay Packers and spent seven years playing Captain Bubba Skinner on *In the Heat of the Night* before running for office. In 2001 his home was worth \$300,000. Now he’s paying taxes on a \$540,000 appraisal.

A few bright spots. Five-year annual household income growth is 3.5%. Rayovac, Kraft Foods and Vivendi have opened regional shipping hubs since 2000, adding some 270 jobs. More telling, perhaps, is that the Internal Revenue Service, which already employs 5,000 processing-center workers, is building two new offices downtown. The University of San Francisco is putting up a 900-doctor training complex. But the mayor’s idea for a \$200 million nine-block revitalization project near a new \$47 million Triple-A baseball stadium is a tad far-fetched, given the high crime rate—six events per 100 residents.

Give Autry credit for trying—and balancing Fresno’s budget. Says he: “If you look deeper, we really are better off than ten years ago.” California dreaming. **F**



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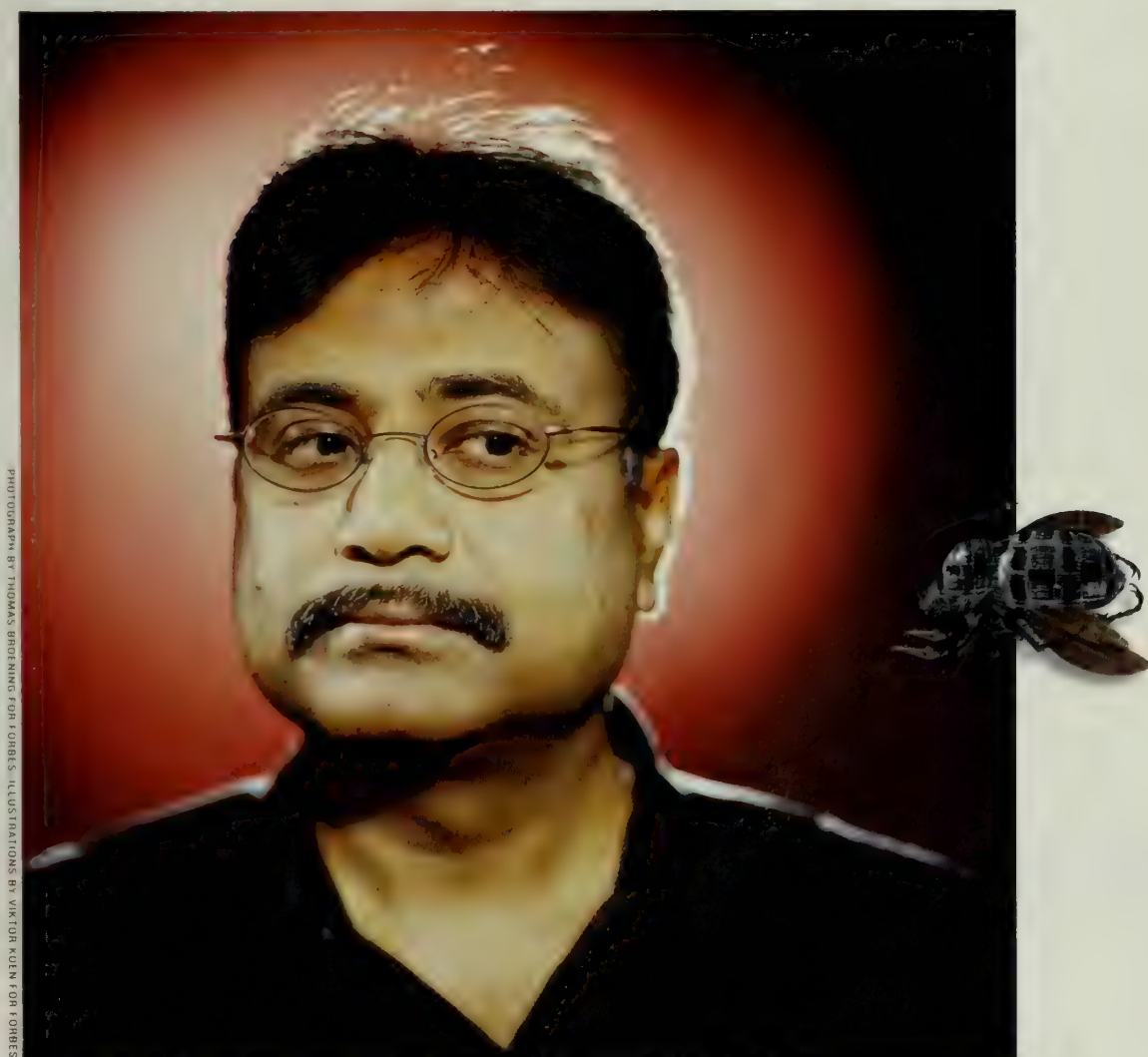
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The Exterminator

Bug-ridden programs are savagely costly. Microsoft engineer Amitabh Srivastava may have just what we need—a software insecticide. BY VICTORIA MURPHY



PHOTOGRAPH BY THOMAS BROENING FOR FORBES. ILLUSTRATIONS BY VIKTOR KUEN FOR FORBES

A STRANGE THING HAPPENED LAST SPRING TO THE BOARD OF DIRECTORS' WEB PAGE OF furniture maker Herman Miller, Inc. Instead of seeing the company's quarterly numbers, staffers saw a Star of David and a sad face. The chief executive thought someone was mocking his Protestant faith. Computer security chief Dennis Peasley thought, "This has to be a hack." But it was no hack, just a software glitch in how Microsoft's PowerPoint program recognized Herman Miller's custom fonts.

Amitabh Srivastava, a computer scientist deep inside Microsoft Research, is the guy Microsoft is

counting on to automate and accelerate the process of purging mistakes. "The impression is that we don't write very good software," says Srivastava. "Every time my computer crashes, it is a reminder of my failure."

Computer bugs have been around since malfunctions in a 1945 Mark II were blamed (facetiously) on a moth trapped in a relay. Nowadays the term refers to programming flaws—commands that don't accomplish the desired result because computers have a habit of following the letter rather than the spirit of the instructions handed to them. The cost to customers of these flaws is necessarily a nebulous figure, but for what it's worth a National Institute of Standards & Technology report puts it at \$38 billion a year. Evaluating only the cost of intrusions by hackers, who exploit flaws in computer security, Gartner Group comes up with \$5.4 billion a year.

Srivastava's fix is an arsenal of tools that help code testers fumigate buggy code. He has a big fan in Microsoft Chairman Bill Gates. "Software quality is about removing or preventing defects. The sooner any defect is caught, the better—ideally, they are simply never coded," says Gates.

Building clean code is getting more daunting, especially for Microsoft. The Windows operating system has 50 million lines of code (a line averages 60 characters) and grows 20% with every release. It's put together by 7,200 people, comes in 34 languages and has to sup-

port 190,000 devices—different models of digital cameras, printers, handhelds and so on.

Would it be possible to sell software only after it's absolutely, positively declared free of errors? Maybe, if the vendor could shrug off being a few years late with the product. At any rate that is not the practice in the industry. The common procedure is to discover some of the flaws after the release, then tell the customer to make the necessary repairs by installing what are called software patches. Last year Microsoft released 72 patches, some fixing multiple bugs. John Gilligan, chief information officer of the U.S. Air Force, estimates it takes 30 to 60 days to install a patch at every one of the country's 110 bases. Toyota Motor pays extra to have Microsoft help install patches but still has problems. "It is a never-ending cycle, trying to keep up with this stuff," says Kay Magilavy of Toyota's North American division. An entire cottage industry of patch specialists is making a market out of the hassle (*see box, p. 150*).

Microsoft claims to be stemming the infestation. Last year Gates outlined his "Trustworthy Computing Initiative" in a memo to employees, urging them to make reliability and security their primary goals. The recently launched Windows Server 2003, which handles critical business tasks, is being sold with such promises. "It is our most rigorously tested software to date," assures Gates.

Reliability is an important part of Microsoft's sales pitch as it scales up from desktop computers to servers connected

to hundreds of computers in a corporate site. Unix-based products such as Sun Microsystems's Solaris and IBM's AIX have 60% of the market for software for heavy-duty servers, while Microsoft has only 6%, according to research firm IDC.

Rivals eagerly play off of Microsoft's weakest link. "Security is an absolute selling point for us," says Oracle's Chief Security Officer Mary Ann Davidson. Oracle's code is run every night against a battery of automated tests. Sun recently started pushing commercial sales of its Trusted Solaris, a supersecure version of its operating system, emphasizing its long-standing business with überparanoids such as the National Security Agency and the Department of Defense. Sun ships its code overnight to testing servers in Ireland. IBM relies heavily on testers—up to one per developer—and follows a rigorous system called the Capability Maturity Model, which rates an organization's development process and is required for military contracts.

Microsoft has testers and debuggers too—they make up 60% of the 4,700 Windows programmers—but doesn't do testing of the sort that government security agencies demand. "It just doesn't scale for the kind of work we do," says Microsoft's director of security assurance, Steven B. Lipner.

Windows Server is Srivastava's long-awaited chance to test his bug-squashing tactics. Since emigrating from India 20 years ago, Srivastava, 46, has made a career of improving software development, first at Texas Instruments and Dig-



By the Numbers

Great Bugs We Have Known

1

1962

The unmanned Mariner rocket veers off its course to Venus because of a faulty line of Fortran code. NASA blows it up five minutes into flight to avoid endangering lives on the ground.

2

1991

A U.S. Army barracks in Dhahran, Saudi Arabia is hit during the Gulf war by an Iraqi SCUD. A glitch in the clock of the Patriot missile system led to a failure to intercept the missile.

3

1995

Denver International Airport's opening is delayed for over a year. Bugs in the baggage system cause suitcases to get chewed up. Carts crash into walls.

4

1997

The USS *Yorktown* is unmovable for nearly three hours off the coast of Virginia. Software tried to divide by zero, crashing the operating system of the Aegis missile system.

5

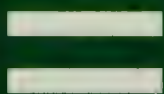
2002

Slammer, the fastest-spreading worm in history, exploits a bug and interferes with Internet service in South Korea and ATMs across the United States.

Source: Peter G. Neumann, principal scientist at SRI's Computer Science Laboratory.



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software

ital Equipment Corp., now with Microsoft, where he's been since 1997. His goal: to automate software testing completely.

Right now the industry still relies on the human eye to catch mistakes. Until recently Microsoft testers went through lines of code every week following a list of vague dos and don'ts; bugs that went unnoticed until the high-stress days just before a program was released were battled over in what Microsofties call the War Room. There was no easy way of knowing which programmer was responsible for which bug. And developers on separate projects would often recreate the same tests. "Fixing a bug could take a week, and then a guy in another division would go through the exact same process," recalls Hunter Hudson, a senior Windows developer.

Srivastava's system acts like a spelling and grammar checker for programming code. Every day developers log on to a program called PREfast, which takes only a few minutes to scour their code for the most common errors, like buffer overflows and memory leaks. Later a more thorough check compares recently written code with previous versions in binary form, the ones and zeros that are the basic building blocks of most computer languages. Developers get back a list of prioritized tests from a database dubbed Magellan, which flags the most potentially dangerous bugs.

Now a bug discovered a year after a project begins can be tracked back to the developer who created it. No one is yet getting fired for writing flawed code, but some are going to what Microsoft geeks call Bug Jail, a time-out for sloppy developers. In Bug Jail you can't write new code and have to retest all your old code. "I don't have nightmares about my Bug Jail incidents, but I really dislike it," says developer Baysim Sezgin, a .repeat offender who has been in jail twice so far this year. Srivastava's software also shows developers the ripple effects of their bug fixes throughout the rest of the program so they can judge whether the cure is

INSIDE TRACK

Patchwork

All hell broke loose four weeks ago at RKA Petroleum, a fuel distributor outside Detroit, when the tech staff installed a patch to fix a bug in Microsoft's Windows NT server. But within an hour after installation, a bug in the patch itself had spread throughout RKA's main server computer, gobbling up crucial files. Tech director Jason Hittleman says he still can't find the server's recycle bin.

In the last three years Microsoft has released 232 of these patches, some requiring manual installation on every PC in a network. Even Microsoft can't keep up. Some of its own servers were patchless when the Slammer worm hit last January.

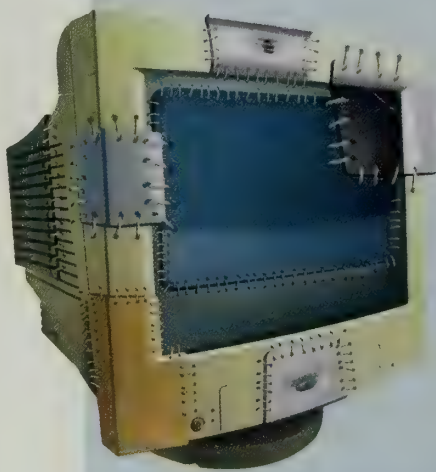
Customers complain that Microsoft does a poor job of telling them how to install a patch without affecting other applications. An industry has sprung up to help companies scan PCs and servers for existing patches and automatically install the right ones. Sales of so-called patch management products will climb 70% to \$34 million this year, according to Gartner. "Someone has to do it, and as long as it isn't Microsoft, it might as well be us," says Sean Moshir, chief executive and founder of Patchlink. For nearly a decade he struggled to get his Scotts-

dale, Ariz. firm off the ground. But this year he expects \$20 million in revenue from customers like Wells Fargo, Cisco Systems and the Department of Defense.

Shavlik Technologies, a Minneapolis firm founded by ex-Microsoftie Mark Shavlik, is licensing a basic patch scanner to Microsoft but also has 1,600 customers for a stronger version that helps deploy patches.

JetBlue might have the best solution of all: agree to run Microsoft's products before their release. Customer support is free prior to release and Microsoft scrambles to fix any problem. "The service we get is beyond anyone's expectations," says Chief Information Officer Jeffrey Cohen.

—V.M.



worse than the disease.

Srivastava's work, largely limited to theory prior to his joining Microsoft, was met with mixed reviews by the proud Windows development army. "It is very easy to publish papers, but doing this in the real world is a different story," Srivastava says. Product managers with deadlines to meet were at first hesitant. Srivastava's tools were allowed to troll through the Windows 2000 operating system, but only on the periphery, running on three servers separate from the ones incubating the real source code. Within a month hundreds of bugs were discovered. "It completely gave us credibility," recalls Srivastava. Now the tools are likely to be sold to developers outside Microsoft, says Gates.

Windows Server 2003 is the first product that has been thoroughly vetted by the new technology. It's helping but hasn't yet revolutionized the process. Of the hundreds of thousands of bugs that were detected and corrected during development, the new tools found 12%. Humans still had to catch the remaining 88%. Says Srivastava, "I am pleased, but we can do better."

Srivastava's long-term goal is to drastically cut the ratio of code testers to code writers, cutting the cost of development by 50%. Ultimately, he wants to create a system that is self-learning. (In a way, it already is: The debugging software initially found 200 mistakes in itself.) "This is a very cool idea," he says, but it's one that is still at the research-paper stage. **F**

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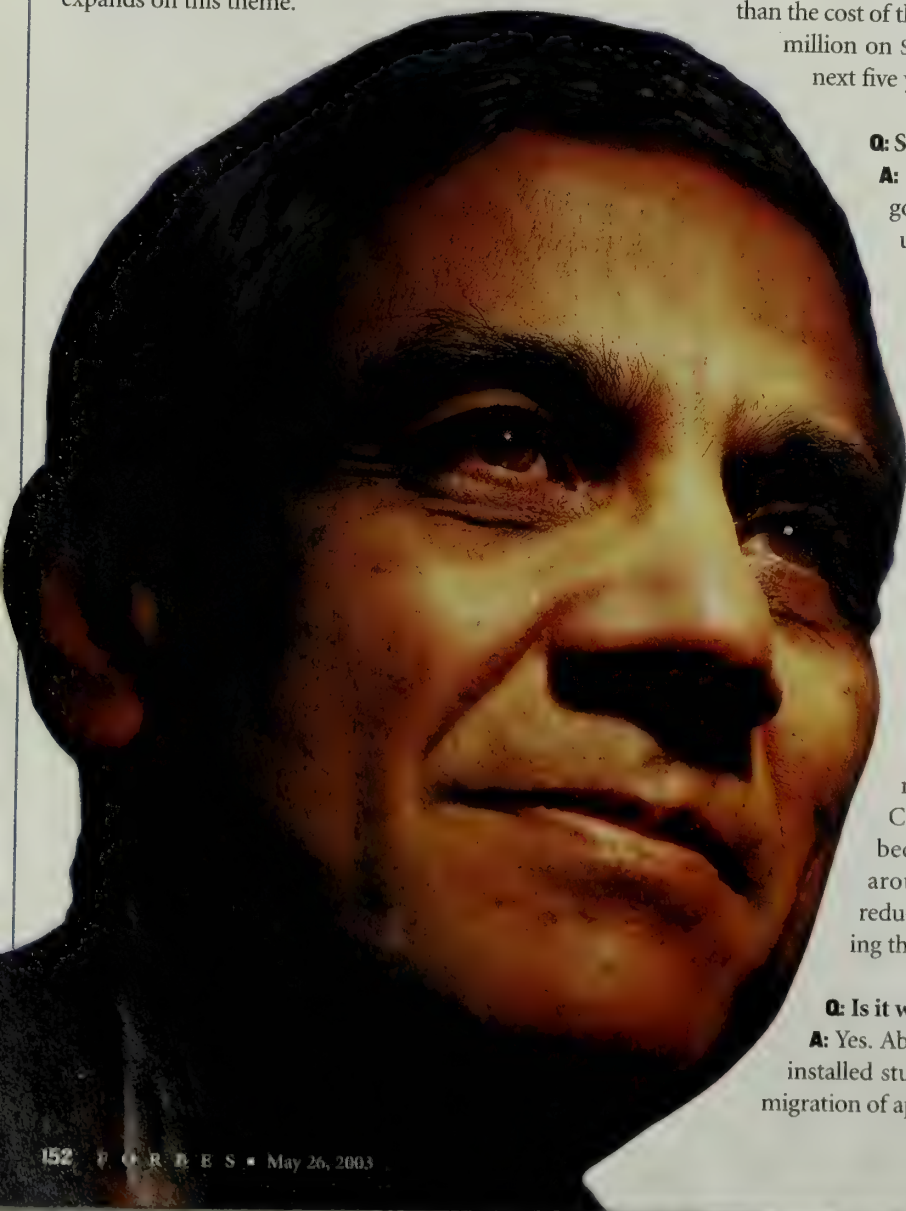
AS I SEE IT

Less Is More

Silicon Valley's top venture capitalist has a different view on how to find a winner in technology: Help buyers spend less money on tech.

BY ERIKA BROWN

VINOD KHOSLA, 48, IS THE DEAN OF VENTURE CAPITAL IN Silicon Valley. His winners included Cerent, Juniper Networks and Siara Systems. In all of these, success hinged on persuading ever more customers to buy ever more new technology. The Valley has a different, more contrite message now: Let us help you spend less on technology. In an interview with *FORBES*, Khosla expands on this theme.



Q: Which technologies are most relevant now, and which are irrelevant?

A: You can never say a technology is irrelevant. It's how it is used. So what are the areas that are ripe for innovation? Almost all of the IT that we've done over the last 10 to 15 years is pretty neat but is too expensive and too hard to use. We may have given all these enterprises Lamborghinis, but not the people to drive them well. So they're frequently spinning out or crashing. The most common thing I tell people is to design products for the average intelligence, because a lot of these engineers are rocket scientists! What they can do isn't what you get in a typical large company's IT department.

There's not enough time spent on the cost of ownership. I have a favorite tag line, modified from Shakespeare: All the technology that is, is with more money deployed than purchased.

A desktop PC costs \$2,000 to buy but \$15,000 to run for three years. You can talk about a little BlackBerry. By the time you install the software and run it and keep it up, it's far more than the cost of the device. The typical company that spends \$10 million on SAP software will spend \$100 million over the next five years on SAP-related stuff.

Q: So where's the money being spent?

A: It doesn't go to the IT companies. It doesn't go to Sun or IBM or SAP or hundreds of startups. Seventy percent of the IT budget goes to internal staff. To inefficiency. Because these systems are so cumbersome.

Q: So what's the solution?

A: Better approaches to designing technology so that we focus not on the sexiest new feature or the hottest new performance box but on tech that's much easier to run, operate, maintain, migrate to, decommission, bring up. And that's a problem that can be solved by the originators of these technologies.

A hot area is server consolidation. If you've got 5,000 servers in your shop, you can take 30% of them out by putting software around the servers so you can use them more effectively. We have a company called Centrata building systems so operations become easier. Sun's new strategy is focused around what they call N1, which is all about reducing the cost of ownership. Veritas is addressing the problem, too.

Q: Is it worth doing?

A: Yes. Absolutely. Hundreds of billions of dollars of installed stuff won't be thrown out, but you can make migration of applications easier. Changing from Oracle 7 to

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Technology

Oracle 8 is a very expensive project for most people, unless there are tools to support it. So at all levels this cost of ownership is going to be an important issue.

Q: Who's losing money because of this problem?

A: Every single data center. Almost anybody who runs an IT operation. It's funny—when I buy a new laptop, even in this small outfit, I can't give my old laptop away. I can't even give it to a school until I've spent \$500 trying to clean it. Transferring all that data into my new laptop is just as expensive. Even before you start, what you buy isn't as important as what you had to do to get it.

Why doesn't somebody offer me really effective migration tools when I buy a new machine from them? Someone will come up with an innovation. It is desperately needed, and it will happen.

Q: Shrinking IT budgets would mean a depressing future for engineers, unless there's some new growth area to soak up the talent. What might that growth sector be?

A: Personalized medicine. Today we do medicine very much the way we did it 100 years ago. Yes, we have more diagnostic tools. But, by and large, if you have arthritis, first doctors look at you and diagnose how well you are doing or how well you are

responding to medicine by feeling your knuckles. There's very little understanding of what's going on at the molecular level, the cellular level.

Ninety-nine percent of all drugs fail. It's not because they're not effective, but we rarely know whom they're applicable for. Unless, of course, you could tell at the molecular and cellular level.

But the economics have to work. [Personalized medicine] has to make health care less expensive. If you had a genetic test that would tell you that certain cancer patients would live for ten years without needing chemotherapy, that would be a great outcome. Today most oncologists will say they overdo chemotherapy because they don't know whom to give it to, and whom not to. They don't want to miss anyone.

Q: How close are we to this kind of medicine?

A: This kind of radical innovation happens in small steps. The first PC was a small green screen with 640 kilobytes of memory, no pixels, only characters on the screen. You could only envision the long-term thing.

[The new medicine] will start to happen over the next couple of years. If I look to 2010, I would be surprised if it isn't common practice for most diseases that are expensive to treat, like rheumatoid arthritis, cancer and diabetes.

F

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Do You
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by Stephen Manes

Pixel-Packin' Camcorder

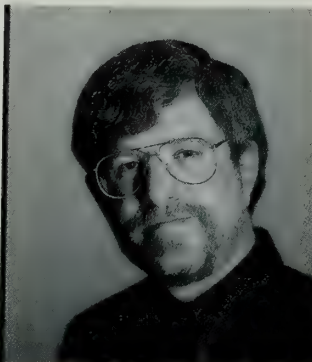
AS HIGH-DEFINITION TV BEGINS TO CATCH ON, what's missing is all too obvious: content. Too few sporting events appear in HD glory. The HD TiVo is still only a promise. HD DVDs are just emerging from the labs. And though you can watch a growing library of HDTV shows, you can't revisit your daughter's soccer game in crisp detail unless you can beg, borrow or rent a \$60,000 camcorder and pricey editing equipment. That's enough to stymie even the most avid amateur videographer.

The creation story just changed. JVC's new \$3,495 GR-HD1 camcorder captures and plays homegrown, wide-screen, high-definition video. It does it on the very same little MiniDV tapes that other digital camcorders use for capturing standard-definition fare, yet manages to cram 60 minutes of high-def onto a standard one-hour cassette. Viewed on a high-definition TV, the video is stunningly sharper than anything from familiar camcorders, making you realize how soft and fuzzy traditional video really is—even when it's digital.

JVC accomplishes this feat via the magic of compression. Standard digital camcorders squeeze data only within each individual frame. JVC employs MPEG-2, the same basic technique used in DVDs, which reuses redundant information in successive frames. By minimizing storage requirements, it lets the GR-HD1 store two and a half times as much picture information on the same strand of MiniDV tape. It's a difference anyone can see.

The JVC records 1280x720 pixels 30 times per second. And it does so progressively, line by line, rather than the odd-then-even-lines interlaced scheme of standard video that can cause subtle motion glitches. But that amounts to

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only half the frame rate HDTV broadcasts use in their 720-pixel progressive format. I expected this to be a problem, but in my tests it generally wasn't. Panning shots can look jerky if you move the camera too quickly, but moviemakers have battled that effect for years with their 24-frame-per-second equipment.

The JVC can record and play in standard DV format and convert its own high-def recordings on the fly for playback at lower resolution on old-fashioned TVs. It also offers a progressive-scan, wide-screen, 60-frame-per-second MPEG-2 format that delivers far less resolution than full-fledged HD, but may work well when transferred to DVD. The camcorder can take still shots, but the best resolution it can muster is an uninspiring 1.2 megapixels.

Stick a Secure Digital memory card in a slot, and you can have it record video thumbnails at regular intervals as you shoot. Call them up on the LCD screen and you can return to each section by clicking on it without having to remember where it is on the tape. That's handy, because rewinding and fast-forwarding MPEG-encoded content gives blockier and less precise results



Clearer family memories: JVC's GR-HD1 is the first consumer camcorder that can record and play high-definition video. But composing and editing aren't easy.

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than you get with traditional camcorders.

Too bad this unit comes up short in essential areas. The LCD viewfinder is among the cheesiest I've seen of late, with a measly 113,000 pixels, compared with some cheaper models' 180,000. Worse, using the high-definition wide-screen mode puts black bars at the top and bottom of the viewfinder, reducing the effective pixel count by 25%. The resulting graininess and color shifts make the viewfinder virtually unusable.

The external LCD screen has 200,000 pixels, but that's about 20% fewer than what some standard-video competition offers, and for wide-screen mode a mere 150,000 light up. It's a shame that such an expensive camera with high-def output comes with such a low-def approach to the basic task of composing the image.

Another sticking point is that this unit records in a unique high-def format that you can't play on any other device. If the format eventually goes extinct, you may be out of luck. You can move the bits to a D-VHS VCR like the one JVC makes, but that has not yet gained broad acceptance. Betting on these formats may not be the gamble you want to make with priceless pictures of your new baby.

Editing is another catch. The camcorder comes with software that lets you move video to and from a 2-gigahertz (or faster)

Windows computer via FireWire cable. You also get a program called MPEG Edit Studio Pro LE for editing footage. Unfortunately, it's a crash-prone rush job with a stupefying interface, an awful manual, dialogue boxes like "???????" with an "OK" button underneath, and a limited range of creative options.

With another camcorder, that wouldn't matter, because you could always use a different editing program, like Apple's excellent offerings. With this one, you're stuck. For now the hapless program is the only one that can handle the GR-HD1's unique bitstream. Until that changes—as it might, if the camcorder catches on or JVC reconsiders its software package—think of editing its footage as a distant prospect.

These composing and editing limitations are serious snags, because a camcorder like this one could be perfect for the many local TV news operations that currently broadcast their in-studio anchors in high definition, but never get high-def from the field. Budding filmmakers might reasonably prefer to shoot their low-budget masterpieces in a snappy forward-looking format instead of a fuzzy one compatible with a 50-year-old TV.

So root for the GR-HD1 or something like it. But keep your wallet in your pocket until both the hardware and software get substantial upgrades.

Smartphone Gets Smarter

The big differences between a not-so-smartphone and a good one are the design, the keyboard and the connectivity. The original T-Mobile Sidekick was my top pick last fall, thanks to its usable interfaces, surprisingly workable keyboard and all-you-can-eat data plan.

An improved new version will arrive this month with a price that jumps \$100 to about \$300. The original dim monochrome screen has given way to a much clearer backlit color display. There's more storage, too; the Color Sidekick can hold 2,000 contacts instead of 1,000. The \$49 camera attachment beats its awful predecessor, though its tiny 320x240-pixel snaps still won't win any photo competitions.

The Sidekick remains my favorite pocket-size e-mail device. Mail can be harvested and sent to the Sidekick automatically from any POP3 or IMAP server; the device alerts you when new missives arrive. Unlike some competitors, the Sidekick delivers a whole message at once instead of downloading a sample and making you ask—and wait!—for the rest. It doesn't truncate long messages and can handle Microsoft Word and Adobe Acrobat attachments as well as pictures—which now appear in color. Though AOL Mail can't be pushed to the device, there's now an easy way to manage it from the Web browser. The AOL Instant Messenger client remains excellent.

Color makes browsing better, too. The back-end servers of Danger, the Sidekick's developer, generally do a fine job of refor-

matting Web pages for the little screen, although they did turn some baseball line scores into meaningless columns of digits. But the Sidekick still can't handle the many pages that employ JavaScript.

Danger's servers also keep the Sidekick in synch with a personal Web site that lets you import contacts

and calendars from desk-

top programs like Outlook. But it's up to you to keep that info in synch with what's on your desk-top machine.

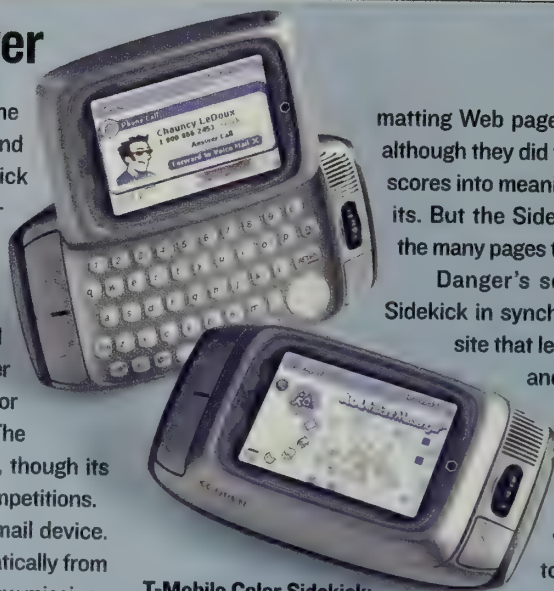
The Sidekick's biggest weakness may be as

T-Mobile Color Sidekick:
The keyboard is the key.

a phone. The built-in speaker sounds tinny, and dialing people directly from the contact list is not as elegantly handled as it is on Handspring's Treo. There's no speakerphone, and the battery is still not removable. You still can't buy a "worldphone" model that can work outside North America.

But the keyboard and e-mail functions on this thing are so good that I wrote the first draft of this review on it and mailed it to myself. I can't imagine trying that with any other smartphone on the market.

—S.M.



Forbes

Stephen Manes (steve@cranky.com) was cohost of *Digital Duo* and has been covering technology for two decades. Visit his home page at www.forbes.com/manes.

MICHIGAN

STATE of INNOVATION

FOCUS ON COMMUNITY DEVELOPMENT:

MICHIGAN'S CORE COMMUNITIES ARE LOOKING BETTER THAN EVER



by Vickery Eckhoff

A renaissance is taking place in Michigan's core communities, and its effects are visible everywhere, from the major waterfront redevelopment project in the city of Detroit to newly revitalized downtowns in cities both large and small.

For the past two years, Michigan's urban and traditional centers of business have been getting a new look, thanks to the efforts of the Michigan Economic Development Corporation (MEDC) and local communities. "Downtown redevelopment is clearly a priority for many Michigan communities," says Sabrina Keeley, the MEDC's acting CEO. "The MEDC can serve as a valuable resource to assist in making these plans a reality."

The MEDC's efforts range from brownfield redevelopment projects to infrastructure assistance, as well as downtown market and planning studies. Program benefits are broad, including grants and tax credits for building infrastructure; actual redevelopment blueprints and strategies created by a nationally recognized consulting firm; and even free downtown makeovers, complete with intensive year-round training from the National Main Street Center, an organization that works with communities across the U.S. to revitalize their historic or traditional commercial areas.

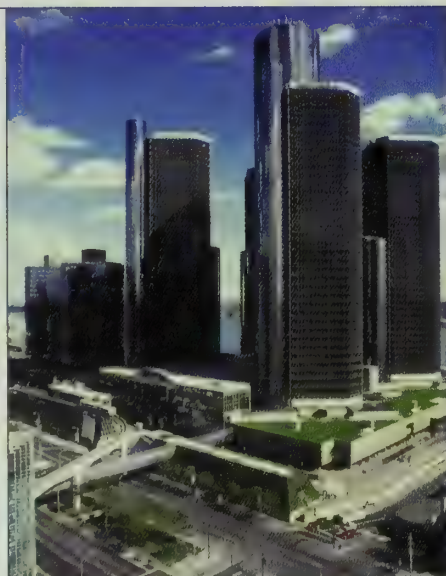
The city of Detroit recently embarked on a visionary \$2 billion redevelopment effort to reclaim its riverfront in the heart of downtown for public use. It's a rede-

velopment project that is unparalleled in the city's 300-year history and is virtually unique in the world for a city so large.

The centerpiece will be the creation of the Tri-Centennial State Park and Harbor, as well as a three-mile River Walk from Joe Louis Arena to the Bell Isle Bridge. Other plans include up to 5,000 residential units, expanded retail and restaurants, multiple public parks, infrastructure reconstruction, a Civic Center Promenade, multiple parking decks, the relocation of cement silos and environmental cleanup, a health club, GM plaza, a new harbor and seawall improvements, and a Port Authority Terminal facility to accommodate Great Lakes cruise ships.

General Motors, the MEDC, the city of Detroit, the Kresge Foundation, the federal government and the Detroit River Conservancy already have committed upwards of \$500 million to the project. "Three hundred years after the founding of Detroit, we have an opportunity to go in and reclaim our river's edge for public use," says Conservancy Co-chairman Matthew Cullen. "The MEDC has been a critical partner in that effort in many ways. It's a key enabler to take an urban area and put it back into productive use."

Such sweeping changes are evident all over Michigan, especially in towns such as Saginaw and Traverse City – both effectively implementing downtown redevelopment plans. Traverse City, the number one small town in the nation for new business growth, has



Downtown Detroit

turned several downtown brownfield sites into first-class mixed-used developments, while Saginaw is undergoing a major redevelopment effort along the city's downtown riverfront.

"This spring, we'll be constructing river walks, docks, gazebos and a fishing pier," says Saginaw Future President JoAnn Cray. "Development is occurring both on the river and the banks. The MEDC has been instrumental in helping all these projects happen." ■

For more information, contact the

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The Winner's Circle

Ad agencies are so frantic for business that 100 scrambled for a \$15 million account from Virgin Atlantic. How did a smallish firm win the tournament?

BY MELANIE WELLS

DO YOU FEEL YOU WORK FOR THE COOLEST COMPANY IN THE world?" Simple question for four Virgin Atlantic Airways executives posed by an advertising executive at Crispin Porter & Bogusky. "I used to," says Alison Copus, marketing director for the airline in the U.K. She will again, she adds.

It's an unusually blunt confession made to eight strangers. But these are unusually bad times in both the airline and advertising industries. As Virgin spent a week in mid-April shopping for a new U.S. ad agency among five candidates, it was obvious that a lot more was at stake than \$15 million in billings, good for not even \$3 million in revenue to the winner. Eager to regenerate an ailing business, Virgin made up its mind unusually fast, turning a planned ten-week courtship into a four-day affair. None of the typical follow-up visits, no spec creative work where candidates offer up storyboards, ideas and filmstrips to give a feel for expected TV ads.

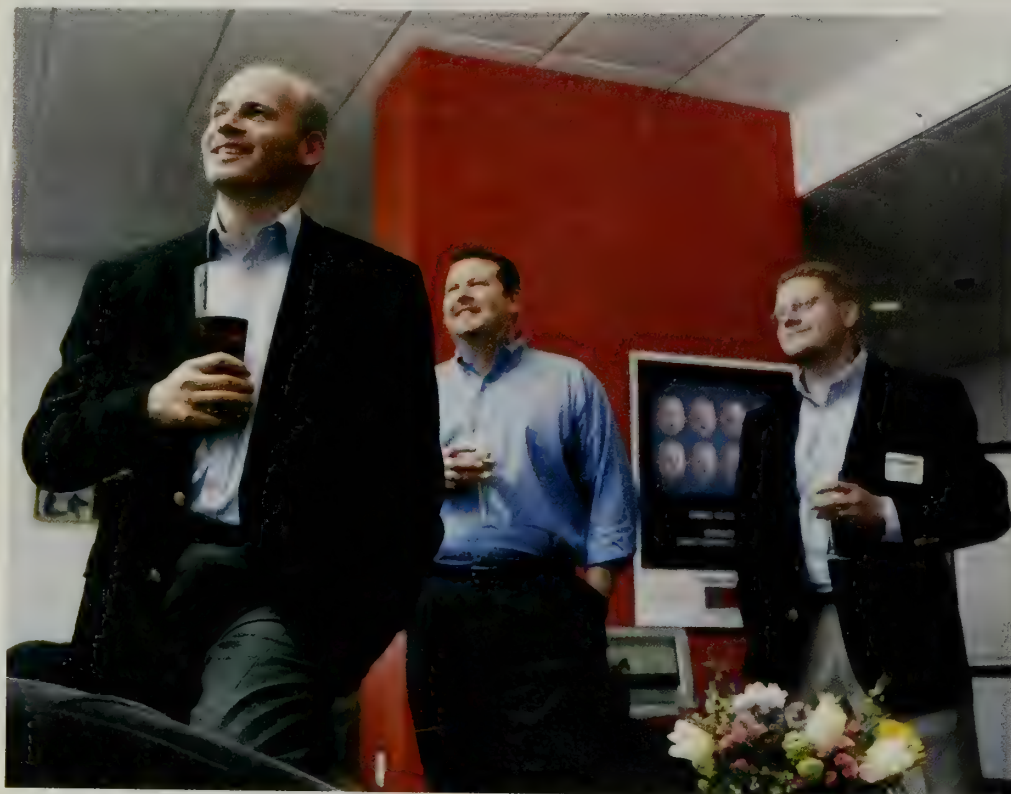
Virgin Atlantic, has laid off 10,000 employees (some related to mergers) and shuttered 50 offices around the world since 2001.

Virgin Atlantic, founded in 1984 by British entrepreneur Sir Richard Branson, hovers in the same troubled skies as its U.S. peers, which have lost \$14.5 billion since the beginning of last year. Privately held Virgin Atlantic is expected to earn \$15 million pretax for the year ended Apr. 30, but it is showing signs of stress. Its North American arm, based in Norwalk, Conn., has laid off 28% of its staff (reducing it to 913), eliminated flights to and from Chicago and Toronto and slashed its ad budget by \$13 million. Gone, too, is some of Virgin's distinctive cachet. It still stands out for in-flight massages and clever ads that flirt with bad taste. But its giant-slayer shtick has grown weary. Says Copus: "We need to grow up and find a new role." Its Peter Pan-ish founder isn't much

Crispin was among some 100 agencies that clamored for a shot at a time when ad agencies are scrambling for any morsel in what is perhaps the most severe famine in Madison Avenue history. Ad spending last year totaled \$237 billion, up less than 3% from 2001. Interpublic Group, which owns two of the agencies that pitched

Marketing

Crispin critters: Alex M. Bogusky (kneeling), Chuck K. Porter, Jeffrey Hicks and Jeffrey Steinhour won the Virgin account.



Bring it on: The Virgin Atlantic group—John Riordan, William King and Ralph Bershefsky—take in one agency's presentation.

help; Branson is too busy with mobile phones, trains and countless other ventures.

Maybe a new ad agency could reignite this venture. On Apr. 2 John Riordan, vice president of marketing North America, and his group selected the finalist agencies to visit and see what they had done for other clients. A detail guy, Riordan, 36, was dismayed that most agencies hadn't followed up to make sure their materials had arrived. And small details, it turned out, would matter.

First stop: the Martin Agency in Richmond, Va., an Interpublic unit with \$363 million in billings. In its proposal, the shop noted it was eager to shed its image as "southern gentlemen." Perhaps a bit too eager. The Virgineers griped about an untidy car driven by a manager who picked them up at the airport. Copus was surprised no one offered to help with her suitcase.

While the Virgin group liked Martin's idea of trying to lower flyers' anxiety by having the airline appear more "caring," the visit ended awkwardly. The Virgin group feared its concerns—aired privately—had been overheard, a suspicion aroused when Martin President James R.

(Mike) Hughes popped in and addressed a couple of those very concerns. He even offered to carry Copus' bag. ("Absolutely not," says Hughes of listening in.)

At Mullen, an agency with \$655 million in annual billings, things got off to a good start. A Boston disc jockey broadcast a welcome on the radio as the airline executives drove to Mullen's offices in Wenham, Mass. Another nice touch: Mullen tricked out a conference room in Virgin style, with groovy lamps, red and orange Gerber daisies and bar stools—resembling those in the airline's Upper Class cabin—all around a conference table. "Cool," Riordan later said, "but very uncomfortable."

The presentation, which lasted just under three hours, was all but over for Virgin after Edward Boches, Mullen's chief creative officer, said he wasn't a hands-on operator. Translation: The airline wouldn't get five minutes of his attention.

Later that day the Virgin brass sipped wine during a meeting with Merkley Newman Harty in New York, an Omnicom agency with \$515 million in billings. The airline crew appreciated the relaxed banter and the suggestion that Virgin plant people

at gates holding signs for "Madonna," as if they were picking up such glitterati. But Virgin said the pitch—which included Merkley staffers written ideas taped to windows—seemed unpolished.

At TBWA\Chiat\Day (another Omnicom agency which handles Absolut vodka) President Shona Seifert pushed a new message for the airline: Virgin Atlantic keeps you "business fit," offering passengers a complimentary phone call to a family member, access to a gym in London, bottles of Virgin-branded water and onboard currency exchange. Too bad that a follow-up thank-you from the agency referred to Virgin Atlantic "Airlines" instead of "Airways." Details matter.

Crispin, an up-and-coming agency in Miami with \$250 million in billings, stole the show by showing how much it could do with so little money. It greeted the Virgin group with a walk through its industrial-style offices, strewn with 600 red paper airplanes.

Virgin was impressed with the work Crispin had done for other companies. For Molson, it repackaged the beer with each label featuring one of 232 parodic icebreakers for guys looking to meet gals. In launching the BMW Mini Cooper, Crispin convinced *Playboy* to feature the car as a centerfold. It also put the Mini in the bleachers of stadiums and atop SUVs that were driven around town.

The agency's initiative dazzled the Virgin staff. Two Crispin employees had stalked Virgin crew members at their Miami hotel, and, plying them with drinks, got them to talk candidly. The crew mentioned that celebrities no longer fly Virgin as much. Riordan scribbled a reminder to talk to frontline staff more frequently. Crispin Chairman Chuck K. Porter said he would tie the agency's compensation to the results it achieved.

Seconds after leaving Crispin, Copus whispered, "We've found our agency." **F**

NO SEIZURES NO SIDE EFFECTS NO STIGMA

Lynn Morrissey

SCIENCE AND EDUCATION CAN CHANGE THE FUTURE FOR 2.5 MILLION AMERICANS WITH EPILEPSY

4 months old, Ethan Morales was an alert and responsive baby until he began making a series of odd movements. They looked "almost like body crunches," his mother remembers.



OUR BATTLE AGAINST FEAR

A message from Linda K. Warner
Chair, Epilepsy Foundation

Despite so many advances, epilepsy remains a misunderstood condition surrounded by secrecy. Too often it's seen as a source of social disgrace, even linked to demons, which has persisted for thousands of years. We often hear of people's lives torn apart once their condition is diagnosed, and this is in addition to the health consequences they face. Some are ostracized by friends and communities; many are fired from their jobs once their condition is known. While one can forgive the shortsightedness of those in the past, what are we to make of the fact that social rejection still shadows people's lives as epilepsy enters its fourth millennium? Why are people still rejected for no other reason than having this disorder? Why is it that someone such as former Congressional Whip Tony Coelho could be barred from becoming a priest because of epilepsy, and that years would pass before the rules were changed? While there are no easy answers to any of these questions, we've discovered at the Epilepsy Foundation that facts can ultimately drive away fear and prejudice. That's what we work at every day.

The doctors she visited first thought it was gas, then colic or perhaps just the worries of an overanxious mother. Yet it was clearly something much more serious because the young boy soon began changing before his mother's eyes. He became less responsive, and his smile vanished. When he wasn't crying in anguish, he would lie completely still. Desperate, his mother took him to the emergency room of an eminent children's hospital. "I screamed for someone to help me," she says. "Fortunately, the right doctor was on duty that night. He said it looked like seizures."

Ethan was diagnosed with infantile spasms, a rare and often devastating type of childhood epilepsy of unknown cause. Epilepsy affects an average of 1 in 100 people, or currently about 2.5 million Americans and as many as 50 million people worldwide. Long misunderstood, it is currently the focus of exciting new initiatives and treatments that are being devised to help people such as Ethan and their families. In addition, advocates are tackling pervasive social issues in the U.S., and the World Health Organization has



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KeyCorp moved into the top ranks of U.S. banking in 1994 with the merger of New York-based KeyCorp and Ohio-based Society Corporation. The long history and proud tradition of those two firms and their predecessor firms came together as a combined entity with Cleveland for its headquarters city. Both companies are well over a century old.

The most significant investment Key makes is in its communities. That commitment takes many forms, including charitable contributions, volunteerism and civic leadership. Key's objective in any initiative is to improve the quality of life and economic vibrancy of the places where its customers, employees and shareholders live and work.

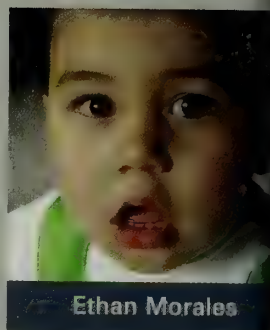
launched "Out of the Shadows," a global campaign to improve access to care and to fight the lingering stigma associated with epilepsy worldwide. For epilepsy, this attention is long overdue. First documented as a medical condition some 3,000 years ago by Babylonian scribes, it has remained a condition shrouded in mystery and fear ever since. Now we are entering an era of change, with new tools to fight this condition.

At the forefront of these efforts to achieve a goal of "no seizure, no side effects" is the Epilepsy Foundation, based in the Washington, D.C. metropolitan area. Founded in 1968, the foundation is the only national nonprofit voluntary agency in the U.S. dedicated to the welfare of people with epilepsy and eventual victory over the condition. That includes eliminating all barriers to full participation in American life and creating a climate of acceptance and understanding that has been delayed for far too long. For the first time in four millennia, life is beginning to change for people afflicted with seizure disorders.

THE PROBLEM DEFINED

To those with epilepsy, an understanding of the condition is all too vivid, but for many others, it remains a mystery. At its most basic level, epilepsy is a neurological disorder that generates sudden bursts of energy in the brain, temporarily disrupting normal brain function and producing seizures that may affect awareness, movement, sensation and conscious control. Up to 10% of us will have at least one seizure at some time in our lives. A diagnosis of epilepsy requires two or more unprovoked seizures. Known causes include genetic susceptibility, developmental abnormalities, head trauma, the aftereffects of severe infection, stroke, tumor or other structural abnormality of the brain. In up to 70% of cases, the cause remains unknown.

Epilepsy can begin at any time of life but most frequently starts in childhood or after the age of 65. While some forms of childhood epilepsy are fairly benign and tend to remit as the child grows older, others are devastating and change lives forever. As a result, epilepsy is a condition with a broad spectrum of severity, ranging from the successful executive whose colleagues are probably unaware that he or she has epilepsy, to the individual with frequent seizures whose entire life has been severely affected.



Ethan Morales

EPILEPSY STATISTICS AT A GLANCE

59% of adults know someone with epilepsy:

- For 33%, it's an acquaintance
- For 29%, it's a close friend
- For 28%, it's a family member
- For 10%, it's a co-worker

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A GLIMPSE OF THE FUTURE

New technologies and treatment strategies are offering hope toward the control and prevention of many forms of epilepsy. Imaging, micro-engineering, chip technology, computer programming and analysis, genetics and genomics — all of these have a role to play in the current field of epilepsy

research. The Epilepsy Foundation continuously supports a variety of cutting-edge ideas such as these, usually through seed grants to gifted young researchers with innovative ideas. What are the chances of seeing dramatic advances in epilepsy therapy within the decade? Excellent, as long as private and public funding expands to keep the momentum going.

One avenue likely to yield exciting new therapies involves linking wiring devices that are implanted in the brain to pharmaceutical products that are designed to stop seizures. The problem with current pharmaceutical therapy is that powerful drugs designed to stop a seizure in the brain, even a specific part of the brain, have to be taken in a way that may affect the whole body negatively. Researchers are working to develop tiny pumps loaded with medication and implanted in such a way that they can deliver the active ingredient exactly where it is needed in the brain and nowhere else. Other devices are being developed to recognize telltale signs of an impending seizure and signal the pump to release the medication in time to thwart it.

Several applications of brain stimulation are also in the works. Preprogrammed pulses of electrical energy sent into the brain might disrupt development of seizure. One approach is to use the vagus nerve in the neck as a portal for electrical stimulation, which is a technique already available. Other approaches



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EPILEPSY FOUNDATION

looking at stimulating areas deep in the brain to prevent seizures. Genetics research offers a variety of new developments, from the possibility of one day replacing or repairing defective genes, to transplanting stem cells, to replacing missing or defective areas of the brain. One day, there even may be tests to determine, through analysis, which patients would benefit or benefit from a particular drug.

WORKING FOR ETHAN'S FUTURE

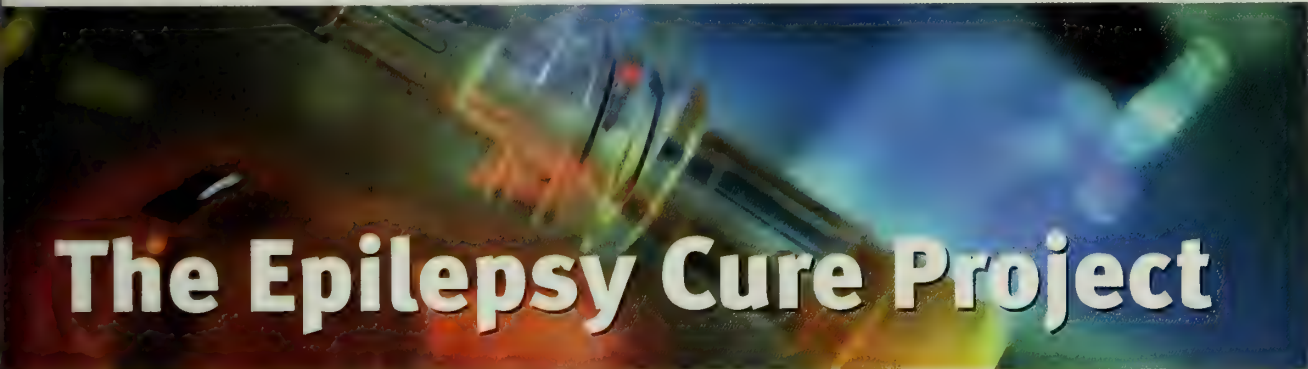
Fortunately for Ethan Morales, as for so many others, there is no sudden happy ending when it comes to epilepsy. Over time, he developed additional problems, including atonic seizures known as "drop attacks." He was given first one medication, then another, and another. His family now is pinning hopes on the vagus nerve stimulator, which they hope will at last reduce the number of seizures Ethan has. At 4, he is looking out of new treatment options. He has good days when he sees glimpses of the child he might have been; yet there are too many bad days with seizures that make him drop

to the floor and hurt himself. Ethan wears a helmet to protect his head when he falls, but it doesn't always help.

Research has already produced successful treatment for many people with epilepsy, but for those who still live with seizures, much more remains to be done — and can be done with enough support. It is this enormous promise that has led the Epilepsy Foundation to set a goal of doubling its own research investment in the years ahead, as well as to work in partnership with other motivated individuals and organizations, such as the Epilepsy Cure Project, founded by Warren Lammert, Henry (Hank) Chesbrough, Greg Trautman and Orrin Devinsky, M.D., to increase the total private commitment to research.

We invite Forbes readers to join us in this effort — and help us defeat an illness that has shadowed lives for far too long. ■

For more information about epilepsy, contact the Epilepsy Foundation nearest you; call 1-800-332-1000 or visit the Epilepsy Foundation's Web site at www.epilepsyfoundation.org.



The Epilepsy Cure Project

Our mission is to improve the lives of people with epilepsy by supporting the research, development and commercialization of more effective therapies.

If you'd like more information please contact us at:

The Epilepsy Cure Project
11911 Freedom Drive, Suite 730
Reston, VA 20190
(703) 437-9720
EpilepsyCure@aol.com

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A Shot in the Arm

Shipping computer hardware to the U.S. Navy and the Department of Homeland Security has given Dendy Young's business a big boost.

BY MATTHEW SWIBEL

HE HAS NEVER WON ANY POPULARITY CONTESTS. When M. Dendy Young ran Falcon Microsystems, an Apple Computer reseller he founded in 1981, he measured the performance of receptionists by how quickly they picked up the phones and how long they left people on hold. Customers who had to wait more than 12 seconds were entitled to collect \$50. Today, as chief executive of Chantilly, Va.-based GTSI Corp. (once known as Government Technology Services)—a reseller of computers, printers, servers and other hardware—Young has eased up on secretaries. But everyone, including himself, must undergo a pat-down search for weapons and cameras by security guards each time they enter the warehouse near Dulles International Airport.

His business has been even less popular. Reselling used to be a dirty word; reselling to the government, a downright filthy phrase. In the late 1990s big-time resellers such as \$4.3 billion (sales) Inacom and \$2.6 billion Vanstar recast themselves as Web integrators and network architects. "We looked rather boring," says Young, who refused to change his business despite calls from analysts and mutual fund managers, who scolded him for not diving headfirst into technology services.

Inacom, which acquired Vanstar in 1998, is in Chapter 11. Under Young, GTSI's revenues have risen an average annual 14% in the last five years to \$934 million; last year it netted \$9.5 million, its fifth consecutive yearly profit. Since 2000 the company has increased its work force by 24%.

Thank war and terrorism for the surge. Last year agencies that now fall under the Department of Homeland Security and the Department of Defense accounted for nearly 45% of sales. In March GTSI shipped \$800,000 worth of PCs, global positioning systems, wireless printers and other equipment running Veritas Software programs to hospital ships and Navy mobile hospital units.

An unlikely comeback for a firm that was

threatened with bankruptcy in 1996. The trouble began in 1994 when GTSI, primarily a box pusher, paid \$20 million for its rival, Falcon Microsystems. But GTSI lost a crucial Air Force contract in early 1996 and couldn't meet the rising demand for network memory cards and customized user interfaces. In 1996 revenue fell 7%; the company laid off 10% of its staff and fired its chief executive. Angry bankers showed up at GTSI offices. "They had all their eggs in one basket," says Young, 54, who left Falcon a multimillionaire after the buy-out. In late 1995 he was invited back by GTSI to serve in the top spot.

Young's assessment: The business was basically okay; management stank. He dismissed all six senior executives and brought in eight new ones, then paid himself \$1 a year in 1996 and 1997, in part to motivate a demoralized staff. He expanded a list of 30,000 items—mostly PCs and printers—to 250,000, from 1,300 manufacturers.

Born in what was then Rhodesia (now Zimbabwe), Young made his leap to America after winning a USAID-backed science fair in 1965 by devising a primitive calculator. He went on to get a B.S. in electrical engineering and computer science at MIT and an M.B.A. from Harvard.

The love of measurement has stuck with him. "It sounds anal, but you can't manage something you don't measure," Young shrugs. Dozens of spreadsheets hang everywhere like artwork on the walls of GTSI's 220,000-square-foot distribution center, most of them displaying error reports of customers' orders; mistakes now occur on 1% of orders, down from 3% in 2000. Young still makes monthly visits to the desks of collection managers, in addition to moni-

Federal Reserves

At least someone is helping to keep the technology industry out of the ditch. Unlike corporate spending for IT, Uncle Sam's investment has been on the rise.

Increase of federal IT funding (\$bil)



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5% of Young's
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monitoring e-mail and other reports, to scrutinize any late payers owing at least \$1 million. As a result GTSI has receivables equal to 42 days of sales, down from 60 days in 1996. Managers who keep clients happy—defined by 10%-to-15% growth in such categories as sales and high scores on direct surveys from customers—can see their total compensation rise as much as 10%. Public postings of customer satisfaction reports spur competition. "The ugly information makes managers uncomfortable," Young says.

Yardsticks or no, Young will have to juice up the service end of this business, which now accounts for 3% of his sales but represents the fastest-growing segment in the General Services Administration's \$13.2 billion technology budget, says Mark Amtower,

who advises companies that do business with the government. Gross margins can reach 20%, compared with 7% for products. As it is, GTSI is missing out on some rich contracts. Example: When the FBI needed to install hardware and networking equipment in 435 field offices, it called on \$11 billion (sales) Computer Sciences Corp. to install 27,000 PCs and servers in nine months; GTSI got only a tiny piece of the estimated \$137 million project, customizing some Hewlett-Packard and Sun Microsystems machines.

From \$3.60, when Young was called in to run the company, GTSI shares have climbed to \$8. By his way of measuring things, that's not good enough. **F**



Party Line

Instant messaging is usually a free service.
What makes **JASON KATZ** think he can make a buck selling it?

BY DANIEL LYONS

PLAYING LEAPFROG TECHNOLOGY with the biggest boys sounds suicidal—especially in a giveaway game like instant messaging. But Jason Katz doesn't appear to have a death wish. He

has staked \$600,000 of his own (and \$3.3 million from others, including friends and relatives) to prove that his IM service can make money.

Last year his Manhattan-based PalTalk

earned a bit less than \$100,000 on \$6.2 million in revenues. The money comes from 200,000 or so paid subscribers (according to a recent Nielsen/NetRatings count, there are 523,000 unique users)

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The Power to Know.



who connect with up to six people at once, using voice and video. All you need is a Web cam, microphone and speakers that can be hooked up to a PC (a broadband connection helps); just download PalTalk software and, voilà, a videophone party line. Well, sort of. You can get a freebie with just audio. Want video? The \$30-a-year subscription lets you see three people at once with a slow, three-frames-per-second refresh rate—much like the herky-jerky images that television reporters first sent back from Iraq. For \$50 you can see half a dozen folks at twice the speed, still primitive compared with the rate at which video streams by on the big screen (24 frames per second).

"This is next-generation IM," says Katz, 40, who started PalTalk in 1998 after America Online made a hit of instant messaging but was slow to upgrade to audio. He quit his job as a network manager for a real estate management company in New York City and holed up for seven months to create the first version of PalTalk software in early 1999. A one-to-one video feature came later that year.

AOL added audio in 2000 but still hasn't added video. Microsoft supports audio and soon will have video where you can see up to 20 people, though you need to load extra software. Yahoo lets you see ten video streams, with audio. All three are gratis. (With them, as with PalTalk, you still have a monthly bill from your Internet service provider.)

So Katz has had to come up with more novelties. He has developed chat rooms where hundreds of people can meet online, send messages and check each other out on video screens. AOL hasn't yet replicated that setup. Katz charges up to \$600 a month to the host of the chat room, based on the maximum number of people a room can hold. People seem willing to pay because they can charge visitors for a password to enter their rooms. The service is popular among day-trading gurus who

charge their fans to hang out and get tips. Of the 280 people who have rented rooms from Katz, 60 fall into this group.

One avid user is Teresa Lo. A day trader in Vancouver, B.C., with a large following, Lo pays \$280 a month to rent a 200-person PalTalk room, and charges around 180 people \$200 apiece each

Later this year Katz will roll out PalTalk Personals. For an extra sawbuck per month, subscribers can join a service that lets them browse profiles and send text messages to other people—even hop up using voice and video. You're free to screen those you want to talk to and block "candidates" you don't.

A less savory crowd naturally migrates to such services. Katz reckons that about 5% of his traffic comes from folks using PalTalk to engage in video-enhanced version of phone sex. But he prefers to talk about wholesome users like Dennis Hill, a Marine at sea who uses his ship's Internet connection and PalTalk to reach his dad in Indiana. (Reza Pahlavi, son of the late shah of Iran, who last year addressed 700 PalTalk subscribers in an online video forum. "We had people from all over the world," Katz marvels. "What other medium could do this?")

Katz runs the company with 22 paid employees and 300 volunteers who give technical support to new users and are compensated with free memberships (remember those

days at AOL?). He rents space in two AT&T data centers, one in Manhattan, another in Secaucus, N.J., with \$700,000 worth of computer equipment, including 80 low-end servers from Dell Computer and five IBM Unix servers. The \$2 million annual payroll is his biggest expense.

But how long can he keep this up? It's one thing to be a couple of months ahead of a plodding MSN, or to be able to interoperate with competing IM services, allowing subscribers to draw on buddy lists from four different systems at once. It's quite another to demonstrate staying power. HearMe and Firetalk, two former rivals of PalTalk, folded in 2001. Katz bought their subscriber lists and source code, as well as pending patents, on the cheap. He'll have to run awfully fast, and be diabolically clever, to avoid sharing their fate.

► By the Numbers

Web of Defeat?

Given the size, resources and tech know-how of its competitors, PalTalk's staying power would seem to carry a grim prognosis.



29 million The number of people who used AOL Instant Messenger (AIM) in March.

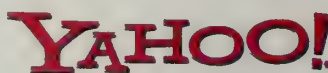
1.8% PalTalk's audience in March, as a percentage of AIM.



\$1.7 billion 2002 revenues for Microsoft's MSN, including access fees and advertising.

48 PalTalk's rank among Internet applications, based on usage.

18 billion Number of messages sent per month on Yahoo Messenger.



Sources: Nielsen/NetRatings; Microsoft; Yahoo; Forbes estimates.

month for passwords that give them access to her room and trading techniques. "It's a great business for us," says Lo, 38.

Katz captures a little bit of that bounty, too. Anyone who spends time in the chat rooms of people like Teresa Lo also has to spend \$30 to \$50 a year for PalTalk software, if they want video. These so-called commerce rooms represent a 10% (and growing) share of PalTalk's revenue.

Katz, meanwhile, is selling chat and conferencing services to corporate customers. License the software, give every employee a copy and let the chief executive do live broadcasts; employees never have to leave their desks. They can also send text IMs during the day or hold small informal meetings via video and audio. Furniture retailer Jennifer Convertibles, in Woodbury, N.Y., uses PalTalk to stay in touch with workers at its 200 retail outlets.



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Wall Street's Dark Corners

Along with a fair amount of dreck, the Pink Sheets are home to some obscure bargains.

BY CARRIE COOLIDGE

HOW WOULD YOU LIKE TO TRADE STOCKS WHERE THERE'S MINIMAL disclosure, low liquidity, abundant scams and legions of the walking dead—shares of bankrupt companies like Enron or empty shells merged-away ones like Boston Chicken, now a McDonald's unit? That's the universe of the Pink Sheets, dwelling place of companies that for one reason or another (usually, having fewer than 500 investors) are not required to file financial reports with the Securities & Exchange Commission. Such a regulation-free place is too scary for many.

But not for James E. Mitchell, a 62-year-old investor in Cos Mesa, Calif. who has made a vocation out of trolling the Pink Sheets for thinly traded value stocks. Mitchell's \$55 million investment outfit, Mitchell Partners, claims that since its founding in 1980 it has averaged an annual return for investors of 16.5% before fees. Even after expenses and a small take for Mitchell, that leaves 14.6% a year for the limited partners, against 12.7% for the S&P 500 index.

A lot of good stocks lurk in the Pink Sheets (see table), along with a large quantity of trash. Some are foreign names, like Switzerland's Nestlé, leery of U.S. regulatory requirements. Some are family-controlled outfits that don't want to bother with analysts and like to keep stock prices low for estate-planning purposes. Good value plays are available, and classic value investor Warren Buffett is known to shop in the Pinks. Because these oddball stocks tend to trade infrequently, volatility is not a concern. "This allows me to sleep well at night," says Mitchell.

One victory he still relishes was with Steelcase, the office furniture maker, which he bought in 1993 and sold in 1998 when it offered shares to the public and went on the New York Stock Exchange. He tripled his money in that stock.

The 99-year-old Pink Sheets are no longer published on their signa-



James Mitchell has done well with oddball securities.

re pink newsprint. In 2000 they moved to a Web site (www.pinksheets.com) where you can access such information as dividend yield, trading volume and recent price. Of course, with such thinly traded issues, the recent price may be from a long time ago. In early May, for instance, Ash Grove Cement had last traded Apr. 2.

Financial data ranges from good to scanty. Some take their investor relations very seriously, issuing press releases and quarterly results. But the overwhelming majority will only share suits with shareholders.

One place to start in this murky business is with *Walker's Manual*, a 578-page book that contains research on 500 of the best unlisted companies. The manual culls out the penny stock ramblers and other obvious riffraff. Published annually since 1996, the book claims a certain objectivity—*Walker's* doesn't accept fees from the companies it describes—but it can't always offer audited numbers. (Then again, what's an audit of WorldCom or HealthSouth good for?) Note that the information typically is a year old; it takes awhile to gather. *Walker's* provides contact information for the company and names the market-makers who trade the stock. You can get the manual at www.walkersmanual.com for \$99 plus shipping.

The next challenge is finding shares to buy, not easy with such small public floats. A small Bethesda, Md. firm, Koonce Securities, specializes in Pink Sheet stocks; it charges \$50 per trade and has a \$25,000 account minimum. Dorsey & Co. in New Orleans has a commission of \$50 and up and no account minimum. The commission is the least of your trading costs, however. The bid/ask spread at Ash Grove Cement is a yawning 9%.

Charles Schwab & Co. makes a market in a lot of Pink Sheet stocks; commissions range from \$52 on a \$1,000 trade to \$720 on a \$500,000 trade. Rivals are cheaper: E-Trade wants only a \$20 and Ameritrade, \$11. Schwab boasts a sizable inventory and, it says, can get you a better price than the competition.

When trading, use limit orders and exercise patience. With

Ash Grove's bid at \$123 and ask at \$135, you might do well to go directly to the marketmaker, match the bid price and be prepared to get no bites for weeks. Since you cannot entirely avoid transaction costs, you shouldn't even be buying unless you can afford to hold on for a long time—like ten years.

The typical pattern when investing in a Pink is to buy a little at a time. "Usually when something is new to us, we won't buy more than a token amount of shares," says Mitchell. "Once we get to know the company better, we might then buy more." In 1985 Mitchell got interested in Rand McNally, a closely held, family-controlled publisher of maps and atlases. Wanting to research the company before buying his first shares, he wrote to McNally and asked for a copy of its most recent annual report. He was politely told: No way.

Flying blind, Mitchell was only willing to buy 100 shares of the stock then trading at \$47. When this library card got him the data he needed from the company, he felt more comfortable. Between 1987 and 1993 he accumulated another 1,000 shares at an average cost of \$150. The investment paid off in late 1997 when Rand McNally went private, buying back all of its stock at \$465 a share. (Good timing: It ran into competitive trouble and filed for Chapter 11 in February. It emerged in April.)

Assuming you have avoided the pump-and-dump scams of penny stock peddlers, you may find that the closely held company you are interested in is more apt to understate than overstate its earnings. Insiders are likely to be competing with you for the scanty supply of shares for sale—either in purchases for their own accounts or in buy-ins to shrink the share base—and they may be hoping to keep a family member's estate tax bill down. "They are not concerned about short-term results, unlike listed public companies," says Andrew Berger, editor-in-chief of *Walker's*. These companies attract no institutional interest that would drive up prices. The big dogs don't like illiquid equities. Another plus: Few Pinks have option plans to dilute your stake. **F**

Undervalued and Unlisted

These Pink Sheet stocks represent solid, long-standing companies, many of them trading near or below their book values. Some have underexploited assets, such as valuable land bought cheaply way back. Others have more intangible advantages: Ice cream maker Hershey Creamery benefits from confusion with unrelated Hershey Foods, the candymaker.

Company/business	Recent price ¹	Dividend yield	Price/book	Shares outstanding (thou)	Underexploited asset/attraction
Ash Grove Cement/aggregates	\$123	1.2%	1.07	8,476	valuable real estate holdings
Burnham Holdings/heating, air-conditioning	40	5.0	1.09	2,198	increased dividend 21 straight years
Farmers & Merchants Bank of Long Beach/banking	3,620	2.2	1.09	158	high return on assets
First National of Nebraska/banking	3,050	1.4	1.13	323	one of largest banks in western U.S.
Hershey Creamery/ice cream	2,015	0.6	0.88	36	brand confusion with Hershey Foods
Keweenaw Land Association/forest products	55	1.4	3.22	642	valuable timber holdings
Limoneira/citrus growing	45	2.2	1.21	984	valuable landholdings
Smith Investment/multicolor printing	36	2.2	0.57	3,317	owns 41% of NYSE-traded A.O. Smith

¹As of Apr. 29. Sources: *Walker's Manual of Unlisted Stocks*; company documents.

INTERNATIONAL INVESTING

Japan's Lifesavers

All is not lost in the world's second-largest economy. Despite ongoing problems, there are real signs of hope. And some companies there are actually thriving.

BY BENJAMIN FULFORD

BLEAK AND BLEAKER—that has been the outlook for Japan for an achingly long time. Since its financial bubble burst a dozen years ago, several false recoveries have come and gone. The bulls talking about a bottom being hit have as much credibility with the general public as that Iraqi information minister.

Current conditions do not seem auspicious. Relentless deflation is eroding prices for goods and services at an annual rate of 1% to 5%, depending on whose data you believe. A ten-year Japanese government bond pays you an interest rate that is just a smidgen more than nothing. Moody's downgraded Japan's credit rating from A1 to A2 last year; it is now lower than Botswana's.

For the ultimate defensive play, cash in the mattress has been a safe investment. Thanks to deflation, holders of cash have seen the purchasing power of their money rise by 14% since 1991. Following the bubble's burst, the Japanese public has socked away an estimated \$250 billion in cash.

The collapse in Japan's equities far overshadows that, however. The Topix weighted index of all shares on the Tokyo Stock Exchange has fallen by 51% in the last three years and 25% in the last 12 months. Large swathes of corporate Japan are nearly bankrupt, even banks and life insurers.

Still worse, the government and economic distress are forcing banks, insurers and large companies to divest their vast stock positions—and the \$80 billion influx of these cross-shareholdings, between now and September, into the market threatens to sink it even more. Japan's banks alone have dumped \$10 billion already, with \$20 billion to go, says Goldman Sachs strategist Katherine Matsui. Small wonder that nine foreign securities firms, including Commerzbank, have left Japan during the past year.

To a contrarian, all this gloom and skepticism is a sign you



can make money from Japanese investments.

Look at what's going on in real estate. The significant fact about this sector is that prices have fallen much further than rents. The result is that some Japanese properties yield annual rents as high as 10% of their purchase values. Even allowing a good measure of deductions for operating costs leaves a risk-tolerant landlord with a handsome return. Note that, with deflation under way and with long bonds yielding next to nothing, mortgages can be had at interest rates below 1%.

This is not a sector suitable for amateurs, since commercial properties are often linked to gangsters. But the disparity between mortgage rates and rental returns suggests that real estate's decade-long recession will soon be over. When that market turns, other assets—notably, stocks—should see less selling pressure, too.

What are the prospects for the stock market? Once the cross-shareholding selloff subsides, probably this fall, some real appreciation should occur in several key areas. The cross-ownership has kept many Japanese companies buyout-proof; this will no longer be the case. The changes mean that institutional investors, many of them foreigners, are taking over from banks as the main stakeholders in corporate Japan. They are asking for—and getting—improvements in accounting, management and profitability.

More good news is that the Bank of Japan, the nation's Federal Reserve, has started to buy equities to help the market.

Meanwhile, great bargains are to be had. An amazing 60% of Japanese listed companies have a market capitalization that is lower than the value of their assets. Another positive note that few have spotted is that much-needed restructuring has occurred among Japanese companies; at the same time, exports over the past year are up 37%. Result: Profits for listed companies (excluding financial concerns like banks) rose 80% in the



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fiscal year that ended Mar. 31, according to Morgan Stanley's estimates.

Here are three ways to play Japanese equities, with stocks that are off their 52-week highs, many of them available as American Depositary Receipts (see table):

Blue chips. Much of the unwinding of cross-holdings is of truly blue-chip companies, like Toyota Motor, Honda and Canon, that are posting fantastic profits since they earn most of their money overseas and are little afflicted by the Japanese economy.

Toyota, for instance, last year earned \$12 billion, with 80% of it from the U.S. And this at a time when the Big Three are dragging. Under the circumstances, Toyota's \$84 billion market cap, despite being larger than those of DaimlerChrysler, Ford and General Motors combined, looks too low.

Deflation plays. Some domestic companies benefit from the ongoing price declines. Derek Jaskulski, manager of the Portland Global Fund, has bought shares in two Japanese grocery chains, Aeon and Seiyu: They have been taking market share by cutting prices more forcefully than their competitors.

Another example of a sector that gains from deflation is home-improvement stores. Their sales rose 28% from 1999 to 2002, presumably because homeowners who cannot sell into a

very weak market choose to fix up their houses instead. A stand-out in this category is Sekichu, which was founded in 1806 as a lumber wholesaler and, after copying the likes of the U.S.'s Home Depot, has turned into a growth stock. Its sales of \$400 million last year were up 16%.

The winners in a deflationary environment can do very well. There are at least 20 companies that have seen their share price

more than double from 2000 to 2002, says Robert Feldman, chief economist at Morgan Stanley in Japan.

The grand prize goes to Takara, a toymaker whose share price has risen sevenfold in that period as it successfully diversified its way out of dependence on Japan's shrinking child population—adding dog-to-human translation devices, for example. Takara's market run may be ending, but it remains a solid company with a future.

Death of the zombies. The one is for the more risk-oriented. In this scenario rising public debt will eventually force up interest rates. These increased interest costs will finally purge the losers from sectors like construction and retailing, and thus create huge growth opportunities for the survivors.

Thus construction companies like Hazama and Tobishima, which survive on bank forbearance, may be swallowed up and make room for better-run competitors such as Kajima, Obayashi and Shimizu.

Rising Suns

These are fine, undervalued Japanese stocks, many with American Depositary Receipts, that are doing well now and should do even better—if the economy rebounds.

Company/industry	Recent price	52-week high	P/E
Aeon ¹ /supermarkets	\$21.62	\$30.42	5
Canon ¹ /electronics	38.55	41.00	22
Honda Motor ¹ /auto	15.50	23.85	9
Kajima ¹ /construction	20.58	32.36	21
Obayashi/construction	2.62	3.25	NM
Seiyu/supermarkets	2.45	4.97	NM
Sekichu/specialty retailing	3.41	5.06	20
Shimizu/construction	2.57	3.85	24
Toyota Motor ¹ /auto	42.80	57.45	12

¹Trades as ADR. NM: Not meaningful. Source: Worldscope via FactSet Research Systems.

STOCK FOCUS

Energetic Stocks

Peter Doyle, chastened Internet speculator, likes natural gas and other energy plays. He has distinguished company: Warren Buffett, no less.

BY MICHAEL MAIELLO

WHILE MANY ENERGY investors are scouring foreign fields, Peter Doyle is a stick-at-home. The chief investment officer of Kinetics Asset Management in White Plains, N.Y. is happy to let others fret over the future of Iraqi crude.

Or divine when strikes will again disrupt Venezuela or Nigeria. Or dodge the next big-oil bribery scandal. He's cheerfully hunting, meanwhile, for investment bargains among U.S. natural gas companies. He's set his sights on those suffering from Enron contagion. Most of these troubled energy stocks

are trading below book value.

"If you make six or seven of these companies into a portfolio, you'll be the best-performing fund manager in the country two years out," he says. A bit of hyperbole, perhaps, from the 40-year-old Long Islander, who started Kinetics in 1996 with his brother and was joined later by his mother, a retired school superintendent. They soon opened the first publicly offered Internet fund. After a boom and bust in that venture (thanks to fat gains at the start, the fund has averaged a 17% annual return over the last five years), they broadened their tastes and now have \$500 million under management in six public funds and two private hedge funds.

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Betting on a big rise in natural gas: Peter Doyle.

January 2000 at the height of the tech bubble, now has \$20 million sunk into out-of-favor companies, especially energy producers and transporters trading at a discount to book value. For a role model Doyle cites Warren Buffett, who has put his Berkshire Hathaway heavily into the energy sector—MidAmerican Energy Holdings provides Berkshire's largest source of noninsurance revenue.

Doyle's favorite energy stock these days is CenterPoint Energy, successor to the utility assets of Reliant Energy, the discredited energy trading company that began life long ago as Houston Lighting & Power. CenterPoint ended 2002 with \$19.6 billion in assets and an unnerving \$10 billion in long-term debt. But CenterPoint, Doyle notes, is about to transform \$5.5 billion of this burden

into nonrecourse debt backed by the obligation of Texas ratepayers to repay its so-called stranded costs. These are past outlays for things like uneconomical power plants that utilities may recoup as they enter the new world of deregulated electricity.

On the back of an envelope Doyle adds the \$5.5 billion stranded cost asset to CenterPoint's stated \$1.5 billion in book value. After eliminating double-counting of some assets, you now have a company with a theoretical book value of \$4.5 billion but a market capitalization of only \$2.5 billion. When the dust settles on CenterPoint's financial engineering, Doyle predicts, it will have a book value of \$16 and will trade close to this mark within two years. The shares now sell at \$8.13.

CMS Energy, the sickly holding company for Consumers Power in Michigan is another energy stock for the venture capitalist. Short of cash, CMS has suspended its dividend, and its shares have collapsed from a \$47 high in 1999 to a recent \$6.47. But book value is \$7.86 which will be unchanged by the recent \$1.8 billion sale of its Panhandle Eastern Pipeline. Proceeds from the sale will likely be used to pay down debt, and Michigan's largest utility will be able to focus on its core business. Doyle believes that it will soon trade at 12 times earnings, like most utilities, rather than the 8 times earnings the stock is fetching now.

In the business of transporting, processing and selling natural gas, Doyle prefers El Paso, trading at a recent \$7.69 against a \$14 per share book value. The company traded as high as \$41.25 within the last year but debt of \$17 billion, including \$3 billion that's currently due, has hurt the stock. El Paso is selling its trading arm and is also getting rid of some gas pipeline and holding facilities at premiums that Doyle believes will bolster El Paso's book value.

With a hefty expense burden of \$2.37 per \$100 of assets annually, Paradigm is no bargain. But the kind of stocks Doyle likes—such as his five picks in the table—may be. To this list we added four gas stocks that trade below book value and have enterprise multiples no greater than nine. **F**

Gas Plays

These natural gas and electric companies are not without their problems, but look attractive relative to book value or enterprise multiples.

Company	Recent price	Price/book value	2003 ESTIMATE		Enterprise multiple ¹	Revenue ² (\$mil)
			EPS	P/E		
CMS Energy ³	\$6.47	0.8	\$0.80	8	16.0	\$8,687
CenterPoint Energy ³	8.13	1.7	0.87	9	6.7	7,923
El Paso ³	7.69	0.5	0.87	9	9.6	12,194
Northwestern	1.76	0.2	NA	NA	9.0	2,302
NUI	15.58	0.9	1.34	12	6.9	580
Oneok	19.18	0.9	1.82	11	6.2	2,104
Reliant Resources ³	5.30	0.3	0.81	7	6.8	11,558
Semco Energy	5.42	0.9	0.55	10	7.9	481
Williams Cos ³	6.96	0.8	0.20	35	8.9	5,598

Prices as of Apr. 28. ¹Enterprise value (market capitalization plus total debt minus cash and equivalents) divided by operating income (earnings before interest, taxes, depreciation and amortization). ²Latest 12 months. ³Peter Doyle's picks. NA: Not available. Sources: Bloomberg; FT Interactive Data, Multex and Thomson First Call via FactSet Research Systems.

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Greed Is Good

IF YOU DIDN'T ALREADY KNOW IT BY INSTINCT, THEN THE last four years should have taught you: When most investors are greedy you should be fearful, and when most investors are fearful you should be greedy. Investors now get the first part of this rule, but not the last part. Fear is pervasive on Wall Street, so this is a good time to be greedy. Sell your timid Treasury bills. Buy stocks.

Financial markets are popularity contests. They discount commonly known information, whether the prospect of \$1.10 a share in earnings for Microsoft this year or the risk that occupied Iraq will turn into a quagmire. Therefore it is pointless to worry about what others worry about. If you do and base market judgments on those worries you will be wrong more often than right.

Put it this way: If others worry about something, you just don't have to because they are doing it for you. You should worry about something else—namely, whatever they're not worried about.

In 1999 folks fretted over the Y2K bug in computer software. So that was one risk to the stock market you didn't have to spend any time on. In 2000 they worried about how to navigate the so-called new economy, hence one more thing safely ignored. Note, they did not worry about the economy going south. So you had to.

In late 2001 they began worrying about terrorists. Since then terrorist activity has declined. We didn't get the follow-on hit in the U.S. we expected. Suicide bombings in Israel have declined from one a week to one a month. A year ago the big worry was corporate integrity. Since then a river of scandal (Enron, Arthur Andersen, Dynegy, WorldCom, Adelphia) has become a trickle of scandal (HealthSouth). The feared catastrophe that does not materialize creates an upward push on stocks when fear finally fades and demand for equities returns.

Of course, this year the masses worried about Iraq. So you didn't have to. Now they worry that in the war's wake the economy will weaken. So you don't have to. I'm not saying the economy will be gangbusters, only that it won't fall into recession.

What should you worry about now? Letting the new bull market get away from you. Almost no one worries about that. Here is why it's a real risk. First, invert the market's P/E into an E/P, an earnings yield to compare with interest rates. In

**The masses worry
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2000 it was markedly lower than fixed-income returns. Ten-year bonds yielded almost 7% and stocks' earnings yield was below 3.5%. Now, the bond yield is below 4% while the earnings yield on 2003 earnings is conservatively at 6%. Further, in the next decade the bond yield on current holdings can't grow. The earnings yield will. Stocks aren't expensive.

Second, we've had three years in a row in which the return was below the market's long-term 10% average. In the S&P 500's history that has happened only seven times. On the previous six occasions the subsequent five-year return averaged 17% a year and was never negative; the ten-year performance averaged 12% a year and was never negative. Big performance numbers. You can't get them with bonds or cash. Cash yields 1% and change these days. The ten-year Treasury yields 4%. Whatever uptick you might or might not get over the next month on the T note, I can assure you that if you buy it now and hang on for ten years, you will get a 4% annual return.

You can expect far better from stocks over the next decade. Be greedy. Try to do even better still. You can try with these three options:

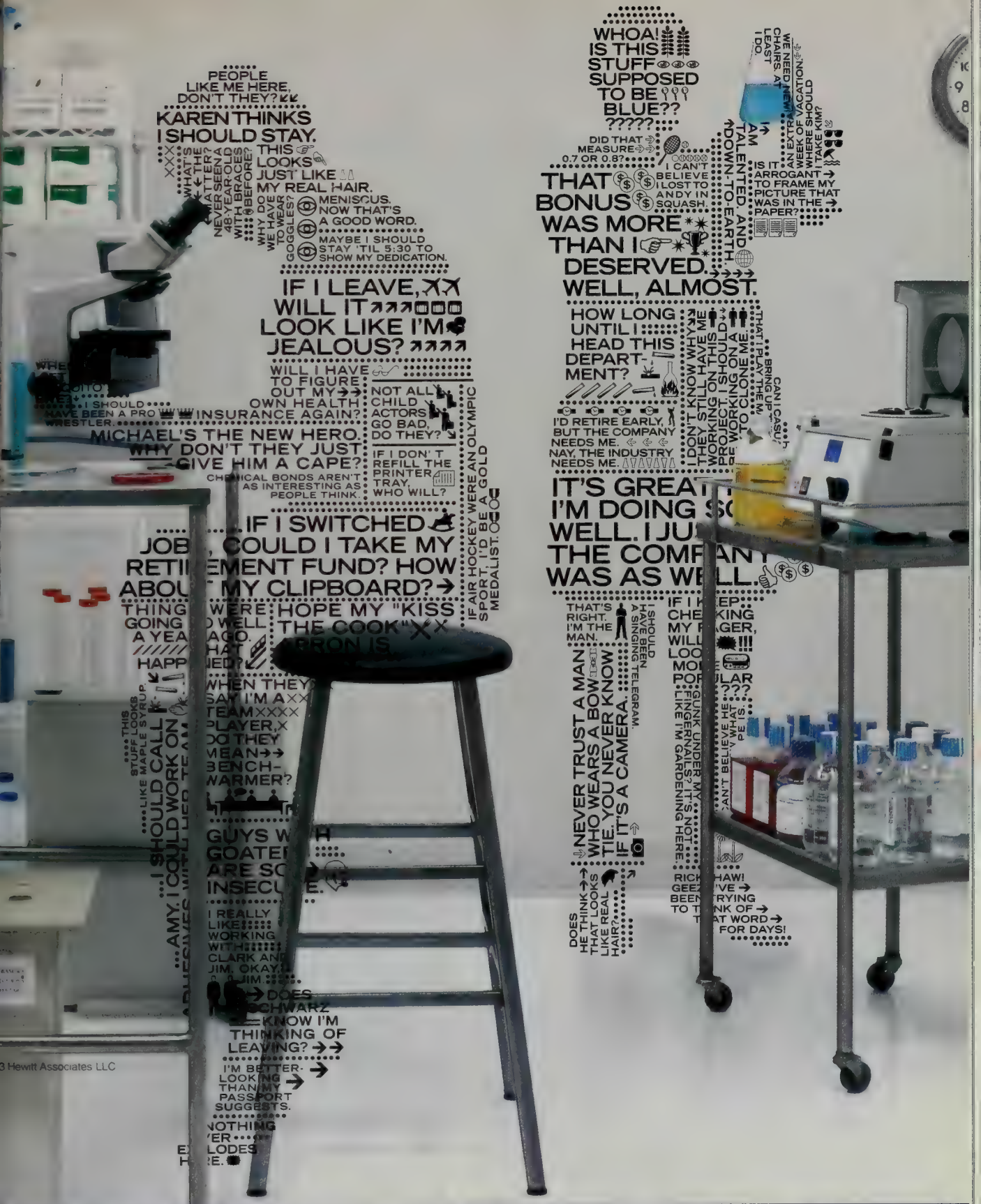
Canada's **Alcan (29, AL)** is the world's best aluminum firm. Basic materials producers generally should do well for a while now, despite the common perception that they are dogs. Alcan isn't just any growth company; it's a growth company from which the market expects no growth. So it's cheap—17 times trailing earnings, against 25 times for its lesser peers.

Look closely. Switch the "a" for an "o" and you get Swiss-based **Alcon (43, ACL)**, which owns 25% of the global eye care market. Its product line ranges from drugs (like Azopt for glaucoma or Ciloxan for infections) to surgical goods (like AcrySof for cataracts) to consumer brands (like Tears Naturale). As populations age Alcon products build natural momentum. The company has been gaining global share for years but has been available as a stock only since Nestlé spun it off in March 2002.

Investors fear that a spent consumer in a weak economy will doom retailers. So you don't have to fear that. From this comes opportunity. Try a package of beaten-down retailers in equal thirds to make one total investment: **Dillard's Department Stores (14, DDS)**, **Federated Department Stores (31, FD)** and **Toys "R" Us (10, TOY)**. All are cheap, with trailing P/E's below 9 and 50% below the norms for retailers.



Kenneth L. Fisher is a Woodside, Calif.-based money manager. Visit his home page at www.forbes.com/fisher.



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Baccy Bonds

COULD A 7.75% TAX-FREE YIELD BE TOO GOOD TO BE true? For high-bracket taxpayers, say with a combined state-federal rate of 44%, that is the equivalent of 13.8% on a taxable bond. These alluring yields can be found in tobacco bonds, municipal issues that are backed by a 1998 agreement earmarking part of tobacco makers' revenues for state coffers. The pact, between 46 states (plus the District of Columbia) and the companies they were suing for health damages, stopped further state lawsuits. But it didn't end privately launched class actions.

And that is why these bonds are offering gigantic yields. If new lawsuits bankrupt the tobacco makers, the bonds might go into default. In April state tobacco bonds had a near-death experience when an Illinois judge ordered Philip Morris USA, whose parent is Altria, to pay \$10.1 billion for allegedly deceiving customers that its light cigarettes were less harmful than the regular kind. The truly alarming part of the so-called Miles decision is that, while Altria appealed this ruling, the judge ordered the company to post a \$12 billion bond in cash, which the tobacco giant claimed it couldn't afford. The Illinois legislature refused to cap the bond at a lower level.

Fears of a Philip Morris bankruptcy filing rocked the market, as the company declared that it couldn't make the \$2.5 billion payment due Apr. 15 to the states. The ratings agencies lowered the largest state tobacco bonds from A+ to A-, still investment grade but worrisome. (Disclosure: My employer, Loews Corp., owns Lorillard Tobacco. What I'm discussing in this column, however, is the impact on municipal debt.)

More threats loom. The Justice Department says it will pursue a Clinton-era lawsuit, revolving around charges of fraudulent marketing, that seeks \$289 billion. Then there's the pending appeal of the Engle decision, a federal court ruling in Florida that would cost the cigarette giants \$145 billion in punitive damages.

Why would anyone want to invest in tobacco munis?

This is a time of maximum pain and maximum opportunity. The fact remains that the revenues from the tobacco settlement are critical to state budgets. States lately are more dependent than ever on Big Tobacco's penance money. After the

The near-death experience of state tobacco bonds in an Illinois court shows why they are good investments: States need the revenue and they won't let bondholders starve.



Illinois judge ordered the monstrous \$12 billion bond, attorneys general from around the nation protested the action vigorously. Under tremendous pressure, the judge relented and let Altria substitute a mere \$800 million yearly payment and a \$6 billion note. You also should expect less onerous outcomes with the Florida case and others. The resolutions may be painful for

the tobacco companies, but not so much that the settlement money ceases coming to the states.

Investors are worried about declining tobacco consumption. How could these bonds continue to pay interest if state antismoking campaigns were to start working all too well? And what if upstart cigarette companies found a way around the requirement that they set aside cash equivalents to what the established companies are contributing to the settlement fund? They could offer discount prices and take away customers.

Well, the companies' payment schedules to the states already have factored in a 1.7% annual decline in cigarette consumption. If volume falls faster than that or the upstarts gain important market share, the bonds would have to stretch out their payments. Exactly how that would work hasn't been spelled out in the bond offering documents, yet a restructuring would surely take place down the line if needed.

States have an interest in not letting bondholders starve because they are still selling new bonds. After the Illinois catastrophe was averted, issuers indicated they were as eager as always to churn out even more tobacco debt. California, for instance, announced plans to sell \$2.3 billion worth of baccy bonds, in addition to what it already has out there. So far in 2003, \$5.45 billion have come to the market.

Could something still go horribly wrong with these bonds? Of course. The risk is worthwhile, though. Those willing to do some homework will find good bets among the 60 tobacco-backed munis.

The best of the bunch are the largest and thus the most liquid. Consider California's Golden State Tobacco 6.75%, due 2039 and yielding 7.75%; New Jersey Tobacco 7% of 2041 trading to yield 7.8%; and Wisconsin's Badger Asset Securitization 6.4%, maturing in 2033 and yielding 7.75%. That new large California issue is scheduled to come to market later this spring. Soon bond investors likely will wake up to these investments. So the time to buy is now.

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Lisa W. Hess is a New York money manager.
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How to Buy Corporates

MOST FIXED-INCOME INVESTORS WHO WANT CORPORATE bonds have found buying them a frustrating experience. Yet with ten-year Treasuries yielding 3.8%, corporates are certainly worth a look. Comparable-maturity corporate bonds—versus Treasuries—yield anywhere from a 0.2 percentage point extra (for an AAA-rated issue) to 13 points (for a CCC).

But if you aren't an institutional investor, you likely will end up overpaying. Worse yet, when you want to sell your holdings, the bid price may vary by 5% or 10% below the offer price. The problem is that bond traders are used to trading in blocks of \$1 million and up and find it unprofitable to match up buyers and sellers for orders of only five or ten \$1,000 bonds (the general denomination of a corporate issue). In fact, if a bond is available in small lots, that can be an indication of something wrong: Maybe the institutions have gotten a whiff of trouble at the issuing company and are unloading its bonds. You don't want to step in.

Fortunately, there are three other—and better—ways for individuals to buy corporate bonds.

- **Exchange-listed bonds.** These are bonds listed on the New York, American or Nasdaq exchanges. They cover all levels of risk and uncertainty but represent only a small fraction of the bond market, and trading is sporadic—i.e., days can pass between trades. It is generally a good idea to purchase at least 25 bonds at a time to minimize the transaction costs. Spreading the \$55 minimum that Charles Schwab & Co. charges per trade is less of a bite when you are buying \$25,000 worth rather than just \$1,000.

- **Bond-backed preferreds.** The second alternative is to buy PET (Preferred Equity Traded) bonds or trust preferred bonds. PET issues are bonds denominated in \$25 pieces and traded on the New York Stock Exchange as if they were preferred stocks. As a result, you get pricing transparency and can buy in 100-share lots for a minimum \$2,500 investment.

Trust preferreds are similar to PET bonds except that the shares you are buying represent a piece of a trust that holds a bond. Trust preferreds may be created by the issuing company or by an underwriting firm that buys a block of bonds and then creates the trust.

One problem: Newspaper tables listing them don't give much information about the underlying bonds.

**Don't be
intimidated by the
bond market.
Small investors can
get good deals, if
they know what
they're doing.**



You'd never know without looking it up that **Merrill Lynch Preferred Plus Trust ELP-1 (20, PJ)** is, in effect, a 7.75% bond maturing in 2032 issued by El Paso Corp. Or that **CBTCS 01-34 (7, XK)** is a 7% bond maturing in 2021 issued by Goodyear Tire & Rubber. Web sites dealing with these types of issues aren't very enlightening, so you might have to enlist your broker's help.

Yields on these preferred securities can be enticing. Example: A **Nextel** trust preferred (**1,055, NXTLO**), maturing in 2009, yields 12.4% while a straight Nextel bond maturing only eight months earlier yields 10.2%. The straight bonds and the underlying bonds of the preferred have similar seniority. Then what about the huge discrepancy in yield? Call risk explains a lot of it. The trust preferred is based on bonds with a 13% coupon, and those bonds could get called away. My reason for liking **NXTLO** is that Nextel, limping financially, is unlikely to call the bond anytime soon.

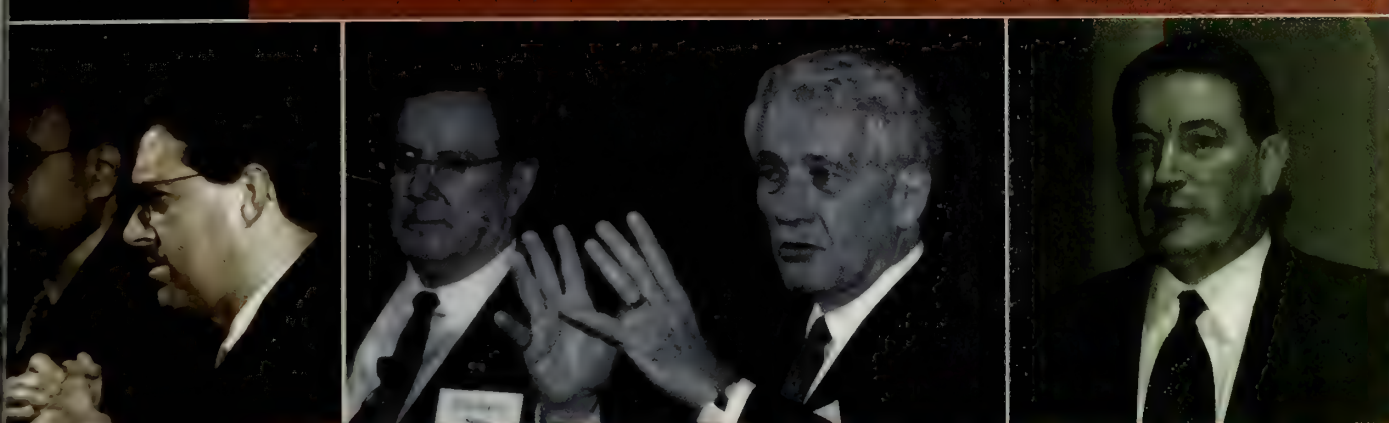
- **Direct purchase notes.** These are sold directly from the issuer at par value. You do not need to pay accrued interest to the buyer; the interest is calculated from when you buy. Thus, you will be getting a yield that remains equal to the coupon rate over the life of the note. At the end of April, for example, **John Hancock** was selling ten-year, noncallable notes rated A1/AA at a yield of 4.5%, or half a point over the ten-year Treasury. Minimum order: \$1,000.

Other good current offerings are the three-year **General Motors Acceptance Corp.** notes yielding 4.35% and ten-year notes yielding 6.5%. These are rated A2/BBB. Other issuers are Caterpillar, UPS, Bank of America, Freddie Mac and IBM.

The absence of commissions gives these bonds a retail appeal that lets the issuers offer yields 0.4 to 0.5 percentage points lower than they do on their conventional bonds. A negative—and it's a big one—is that the bonds are illiquid and hard to sell before maturity. One exception: The issuers will buy back the bonds at face value if a bondholder dies, making them good for estate-planning purposes. Should you want to build a laddered portfolio—that is, one with equal monthly interest payments or maturities evenly staggered over the next 5, 10 or 20 years—they are ideal. As you mix maturities, mix issuers; there's no telling which. A-rated company will go bankrupt someday. Find out more at www.directnotes.com or internotes.com

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Mark Chandler uses high-tech tools to unravel the mystery of disease.

Telltale Blood

Mass blood screenings may change medicine by finding clues to the enigma of why patients live and die.

BY DANIEL FISHER

work in combination, that were even more tightly correlated with heart-disease risk?

Culling the blood for new disease patterns is the mission of Mark Chandler, the founder of Rules-Based Medicine, a small, privately held firm in Austin, Tex. Using a souped-up version of a widely available blood-analysis machine, Chandler can simultaneously test for 166 different blood toxins, hormones and proteins, among other things, in a 20-microliter smidgen of blood.

Chandler's plan is to compile massive data libraries of disease, or highly detailed blood blueprints. Doctors, researchers and drug companies can run their own tests and match the results against Rules-Based's library, with the result being far quicker diagnoses, better matching of drugs to patients and new avenues of treatment. Chandler will establish lucrative patents on any new diagnostic tests and collect royalties whenever they're used. "We're trying to transform medicine from problem-solving mode to pattern-recognition mode," Chandler says.

The more patient data the better. Rules-Based Medicine is working with Dr. Stanley Hazen,

DR. O. H. (BUD) FRAZIER HAS PERFORMED 900-plus heart transplants since 1982, but he still doesn't know why some of his patients fare so much better than others. His longest-lived patient received the heart of a gunshot victim in 1983. Yet 20% of his patients die within a year, despite having blood chemistries that seem to match those of longtime survivors. Says Frazier, chief of cardiopulmonary transplantation at the Texas Heart Institute in Houston, "It's sort of a Calvinistic, predestined thing."

It doesn't have to be. Frazier, with the help of a medical technology firm called Rules-Based Medicine, is about to start screening blood samples from hundreds of transplant patients and their donors in a first-ever attempt to see if there's a pattern of proteins, antibodies, hormones and other substances that dictate the success or failure of a transplant. If he finds such a pattern, Frazier will be a big step closer to far better matches of donor hearts with patients. He may also be able to identify those for whom a transplant is so likely to fail that it should not even be attempted.

Doctors now diagnose and treat the ill through educated hunches and trial and error. They know that heart disease, for example, tends to occur in patients with an overabundance of any of these things: low-density lipoprotein, triglycerides, C-reactive protein or homocysteine.

But this is not the end of the matter. What if there were five other blood-borne agents, heretofore unknown to

NORTH AMERICA

Ma Bonds, United States

Coal miner's daughter and native West Virginian, Bonds has won the Goldman Environmental Prize for leading campaigns to stop mountaintop removal coal mining. This highly destructive "strip mining on steroids" is ravaging communities throughout Appalachia, turning river valleys into mining waste dumps, driving up asthma rates and forcing families to abandon their homes.

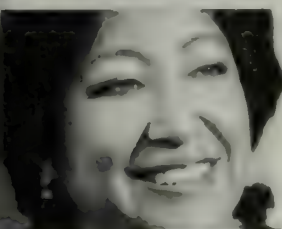
Photo by Chuck Weyantok



EUROPE

Enrique Arrojo-Agudo, Spain

Physicist and economics professor, Arrojo won the Goldman Environmental Prize for his campaign to stop Spain's National Hydrological Plan from damming and diverting the country's last free-flowing rivers. He is spearheading a new wave of activism for forging a sustainable water future based on conservation, recycling and informed cultural choices. Photo by Fernando Maselli



CENTRAL AND SOUTH AMERICA

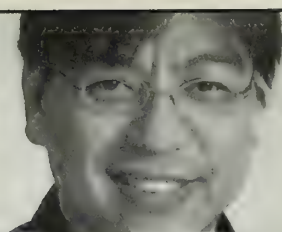
María Elena Foronda Farro, Peru

Foronda has won the Goldman Environmental Prize for her campaign to clean up Peru's fishmeal industry, which releases untreated industrial waste into streams and out of smokestacks. She has fostered partnerships between community groups, fishmeal producers and the government to institute environmentally sound and profitable business practices.

Photo by David Mertz

Those who exploit
the environment
count on people
doing nothing.

Thanks for
proving them
wrong.



ASIA

Von Hernandez, Philippines

Hernandez has won the Goldman Environmental Prize for organizing campaigns against waste incinerators in the Philippines, which release cancer-causing dioxins into the air. He led the Philippines to institute the world's first nationwide ban on waste incinerators. Despite intense industry pressure and government corruption, he persists in his work to keep the ban in place.



ISLANDS AND ISLAND NATIONS

Eileen Kampakuta Brown & Eileen Wani Wingfield, Australia

Brown and Wingfield have won the Goldman Environmental Prize for their leadership in the campaign to block construction of a nuclear waste dump in their homeland. In the 1950s, British nuclear bomb tests in Aboriginal lands caused birth defects, cancer and the poisoning of the environment and wildlife. Now, Brown and Wingfield say *lhati wanti* — the poison, leave it.



AFRICA

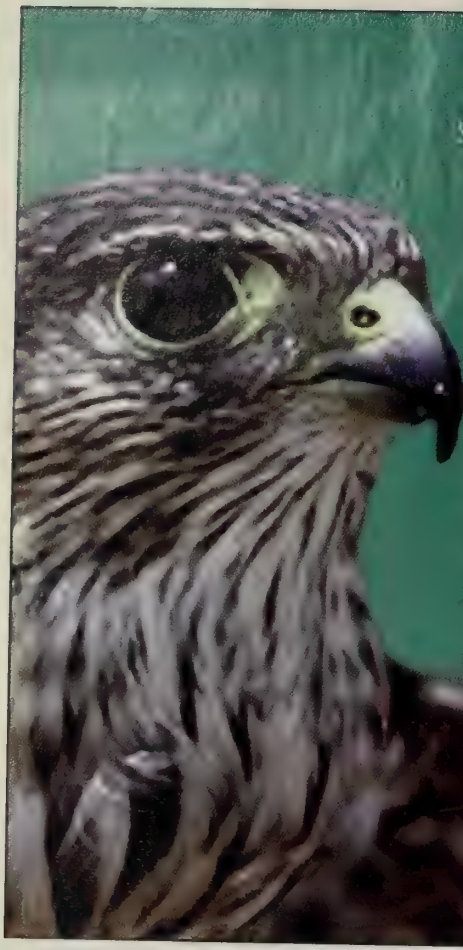
Odigha Odigha, Nigeria

Odigha has won the Goldman Environmental Prize for securing unprecedented protections for Nigeria's remaining rainforests. He was instrumental in creating a statewide logging moratorium and has educated hundreds of forest communities on sustainable forestry practices. His work has resulted in representation for civil society in all forest management policies.

The Goldman Environmental Prize is the world's largest prize for grassroots environmentalists. Awarded annually since 1990, the Prize has been presented to 94 people from 57 countries. Each of the winners, chosen from the planet's six inhabited continental regions, receives \$125,000. These individuals demonstrate exceptional courage and commitment, often working at great risk to protect our environment and, ultimately, life on Earth. In the process, they inspire the rest of us to do the same. *Richard A. Goldstone*

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HEALTH

an endocrinologist who heads up the Center for Cardiovascular Diagnostic and Prevention at the Cleveland Clinic in Ohio, to test thousands of cardiac patients to see if there are combinations of blood chemicals that predict heart failure or responses to various drugs.

Chandler first hit upon the idea of a mass analysis of blood at his first company, Inland Laboratories, which scoured the world's jungles for rare toxins used in drugs to treat cancer and other illnesses. To run that business, Chandler had to figure out how to rapidly screen out contaminants.

So he started another company, the publicly traded Luminex, which developed a \$35,000 blood screener. The Luminex machine started with a decades-old technique that coats microscopic latex spheres with antibodies that attract specific agents (microbes, a pregnancy hormone, etc.) in the blood. If also coated with fluorescent dye, the spheres glow when the antibodies have latched on to an agent. Their fluorescence is recorded as they zip single-file past a pair of lasers. A drop of blood can hold 10 million spheres.

Chandler worked with a small group of researchers to expand the capability of the machine to do many tests simultaneously using different shades of fluorescent dye. The group ended up spending almost four years and \$5 million to concoct a recipe of antibodies that wouldn't react with one another while aswirl in a soup of blood cells, plasma and microspheres.

Last year the struggling Luminex sold off all but 20% of Rules-Based to Chandler and his employees. They are betting that research docs like Stanley Hazen and Bud Frazier and drug firms will throw them enough work to keep them in business. At \$450 per test, a 5,000-patient clinical trial evaluating patients at several points in time could bring in \$6 million. For the right research project a \$450 blood test would be a bargain, since performing the same number of tests using conventional methods would cost at least \$10,000 and half a liter of blood. "You'd have to exsanguinate a person to get the same amount of information," says Chandler—only half in jest.

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WOMEN'S FORUM

In Vino Falsitas

Bogus label? Counterfeit cork? Before plunking down cash for a rare vintage, heed these precautions.

BY ALAN FARNHAM

POOLSIDE AT LAS VEGAS' BELLAGIO HOTEL, GUESTS PLAY AT GUESSING which bathers' bodies are authentic, which surgically enhanced. Elsewhere, on the receiving dock of the hotel's 70,000-square-foot warehouse, a more serious guessing game takes place: Twice a month some \$400,000 worth of wine is unloaded and inspected. Of the 1,500 bottles sold each day in the hotel's restaurants, at least a dozen will be vintages prone to being counterfeited—old Bordeaux and burgundies, rare ports. With a single bottle of 1982 Château Pétrus worth \$3,500, failure to distinguish real from fake can be costly.

Jay James, the Bellagio's master sommelier and director of wine, goes over every shipment. Toward fakes, his attitude is the same as the French army's toward the Germans at Verdun: They shall not pass. He recently accepted, for example, eight cases of 1982 Pétrus. Their provenance was ironclad. Not so that of a case of '59 Margaux.

James takes a bottle from the shelf. This Margaux, he says, had changed hands many times before being offered to Bellagio. Its chain of title was hazy. That didn't mean the wine was fake, only that it demanded extra scrutiny. He points at the foil capsule covering the cork. A neat incision has been cut into the metal with a razor. "I did a T-shaped cut," he explains. Peeling



CAPSULE Embossed details (logo, date, design) should conform with those found elsewhere on the bottle. An old cap should be lead and should show signs of oxidation. Foils made of a sandwich of tin and aluminum came into use only in the past decade, after U.S. producers became concerned about lead-related liability.

CORK The base of an old cork should show absorption of wine. The cork's date and apparent age should comport with the bottle's. New cork? Beware. The only circumstance where a cork can legitimately bear a date younger than the wine is if the bottle was recorked at the chateau itself, as part of an authorized rehabilitation of an old bottle. Language to that effect should appear on the cork or bottle.

ULLAGE Check the degree to which the bottle falls short of being perfectly full. An old bottle, even if well stored, should show signs of evaporation. Only if the bottle has been reconditioned and

back the foil, one sees the cork clearly through the glass. "A 44-year-old wine should not have a cork that looks like it was put in last week," he says. This cork looks reassuringly old. It's stamped "1959." Only when the château itself has replaced an old, deteriorating cork with a new one can the cork legitimately bear a date different from the bottle's. Undated corks, too, invite worry: The original stamping might have been filed off.

James measures ullage—the gap between the level of the liquid and the bottom of the cork. An oldie should show some evaporation. This one does. He inspects the glass: Do this bottle's uneven seams and imperfections date it to the bottling machinery of the 1950s? They do. He shines a halogen light into the wine. Color and translucency fit its purported age, as does the amount of sediment. His verdict? This Margaux's legit.

Sometimes the bottle screams fakery. In Australia crooks counterfeited bottles of 1990 Penfolds Grange (named wine of the year by *Wine Spectator* in 1995). They made a few mistakes. Bar codes on the original were red. The counterfeits were black. The fraudsters spelled "pour" with two "o's."

Serena Sutcliffe, head of Sotheby's wine department in London, describes the market for trophy wines as awash in fakes. "At the top end," she says, "it's obviously a problem." The list of vintages valuable enough to attract counterfeiters includes 1961 Latour, 1945 Mouton-Rothschild, 1982 Le Pin, 1982 Pétrus, 1947 Cheval-Blanc and 1870 Lafite-Rothschild. Nor is the problem limited to the rarest vintages. In 2000, before authorities cracked down, scammers in Italy counterfeited 16,000 bottles of Sassicaia, a "super Tuscan" that retails for \$100.

Experts such as James and Sutcliffe say they encounter questionable bottles far more often than they do outright frauds. "There was an instance where we received a mid-1980s Bordeaux," say James. "I didn't catch on instantly, but I began to notice that every label had the same little wrinkle on it. They were digital copies, identical." He weighed possibilities: The wine might well be genuine. The original labels might simply have been damaged. Still, he refused the shipment. "I decided that if I were the customer, and if I saw the label was a laser print, I would question its veracity."

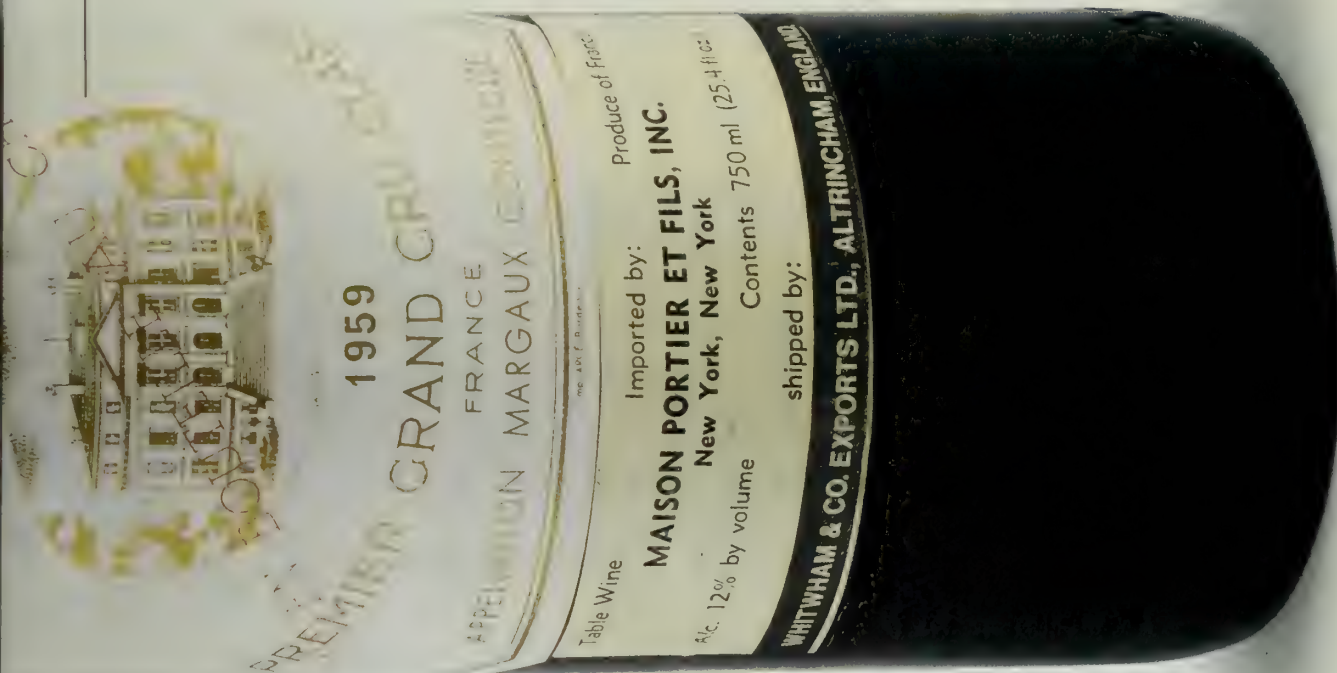
California's ultrapremium producers haven't yet been victims of pirates (that they know of), but they're not taking chances. As Donald Weaver, managing director of Napa Valley's

above) should it be 100% full.

LABEL Fraudsters get careless, so don't overlook the obvious: Are words spelled right? Is this the original label, complete with bumps, smudges, stains or other signs of age? Or is it perhaps a laser copy? Run your hand over it. One collector, on doing so, discovered a peel-off date (old) placed over the original (young).

BOTTLE The technology for turning glass into bottles has evolved. Today's bottles are seamless, smooth, their glass containing nary a bubble or distortion. Not so old bottles, whose imperfections allow them to be dated to their era of manufacture. Some winemakers have now begun stamping or laser-etching names, dates or authenticating codes into the body of the bottle.

CONTENTS Shine a light into the wine itself. Does the amount of sediment comport with the wine's age? Check color and translucency. An old Bordeaux, say, should be dark—but not opaque.



Harlan Estate, explains, "Anytime anything goes over a certain price point, somebody with larceny in their hearts will be looking for a way to knock it off." Harlan's wines retail for up to \$700. Labels are of banknote quality. The engraving has a distinctive feel—a "tooth" produced by raised impressions. "Even a very crisp copy by the best copy machine won't have that same feel," says Weaver. A new wine called Bond has a label that incorporates a latent image, a "B" visible only from an angle.

Penfolds now laser-etches into every bottle of its Grange a sequentially numbered five-digit alphanumeric code. The faker might copy a real serial number, but would be in trouble if Penfolds were able to say that this number belongs to a bottle known to be in a warehouse on the other side of the globe. Château d'Yquem uses a watermark on its label that shows up under ultraviolet light. Scientists in France are working on a way to prove the paternity of any wine by analyzing its DNA. A researcher at the University of Adelaide in Australia says he can

use carbon dating to detect the faking of an older vintage. Sad to say, his technique requires sacrificing the bottle.

How can you protect yourself? Be suspicious of anything offered as an incredible bargain. Buy from a merchant with reputation to protect. Check for signs of obvious flimflammer. A printed label from 1967, for example, should not include a barcode. Inspect the cork (some dealers will let you cut the cap, you ask). You don't need a mass spectrometer. Says James, "The tools of my trade are a flashlight, a razor and a dark room."

When all else fails, solicit the opinion of the winery of origin. Three weeks ago London's Berry Bros. & Rudd, a 300-year-old wine dealer, was offered a 1928 Pétrus magnum. "If legitimate, would be worth \$17,000-plus," says Simon Staples, sales director. Berry Bros. sent it to the château for an opinion. Pétrus determined that the capsule was not the original foil and that the label had been fabricated at a date later than '28. The bottle was destroyed the same day, its owner forfeiting whatever he might have paid.

Bed & Beacon

When these places say, "We'll leave the light on for you," they mean it.

BY EMILY LAMBERT

FIVE YEARS AGO ALL LIGHTHOUSES IN THE U.K. BECAME automated, run from a single control room in Harwich, Essex. Bad news for lighthouse keepers, but good news for tourists with a taste for unusual lodgings.

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Devon's Start Point lighthouse is a great (and extra charge) place to stay.

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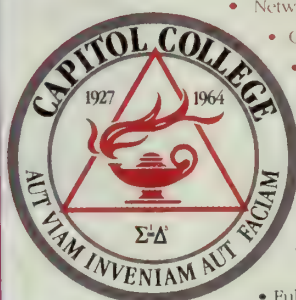
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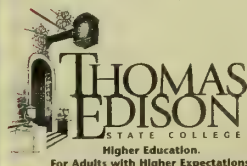


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Cromer in Norfolk to Trevoze Head in Cornwall. By the end of next year there will be 34 cottages altogether, in 14 different locations.

"Quaint" doesn't begin to describe the settings: pounding surf, rugged cliffs, splendid isolation, sites of historic rescues and damp derring-do. The cottages are equipped with phones, high-definition TV, central heating and double-paned windows to keep out raging storms. Figuratively speaking, they're three-star accommodations with five-star views.

Start Point Lighthouse, an 1836 structure, stands on a Devon peninsula. From its front lawn you can breathe in salt air and watch seals basking in the sun. You yourself can bask in self-congratulation: Part of the fees paid by guests, which range from \$480 to \$1,700 for a three-night stay (the minimum), contributes to the upkeep of the lights, which still burn. Start Point's light beams 25 nautical miles out to sea, warning ships away from treacherous Skerries Bank. A satellite radio beam would work better and use less electricity, but in England tradition still counts for something.

Charles Howeson, a 53-year-old retired commander in the Royal Navy, says he prepared his wife and two children for a camping expedition when he booked Start Point, not knowing what to expect. They arrived with a car full of provisions but found their cliffside cabin so stylish and well stocked that they invited friends over and prepared a dinner for eight, complete with wine, tablecloth and silverware (all provided). His wife, who had dreaded the trip, was won over by the comfortable bed. "She quite likes her comforts," says Howeson.

The nearest town was five miles away. Not all the cottages are so isolated: The Cromer Lighthouse in Norfolk, built in 1833, borders a golf course. Others offer supernatural companions. At Start Point the ghost of Henry Muge, a pirate executed on the beach below in 1581, is said to stalk the lighthouse. At Pendeen, a former keeper swears he's seen a mermaid.

When Britain's beacons went automatic in 1998, Trinity House Lighthouse Service, the corporation chartered to run lighthouses by Henry VIII in 1514



They found their CLIFFSIDE CABIN stylish and well stocked.

decided it could make more money by renting out the cottages than by unloading them. THLS set aside \$1.6 million to renovate 34. Coming up with the money was no great strain. An Old World version of the New York-New Jersey Port Authority, the corporation imposes a levy on every ship entering a U.K. port. The money goes into THLS' General Lighthouse Fund, which maintains 72 lighthouses and 429 buoys.

In 2000 THLS signed a five-year contract with Rural Retreats, a British company that manages bucolic properties. With a 50% occupancy rate, Rural should be able to haul in \$500,000 in lighthouse

rents this year. For its trouble (and housekeeping costs), Rural gets to keep 47% of the revenue; the rest goes to Trinity House and its anachronistic beacons.

People pining for a lighthouse stay have many options outside Britain. (For a worldwide listing of lighthouses that take paying guests, visit forbes.com/lighthouses.) Want to try your own hand at being keeper? A truist who set up a nonprofit corporation can acquire lighthouses from the U.S. Coast Guard, which is in the process of selling off 300 to nonprofit groups. Twenty are on the market now, and the rest will follow over the next ten years. (For information, see www.cr.nps.gov/maritime.)



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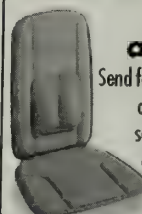
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THOUGHTS

On the Business of Life

Do you remember the Miss Rheingold contest? When we came of beer-age five decades ago, the most talked about brew was Rheingold. For a whole year its ads featured a gamut of beautiful gals contesting for your vote to win election as that year's Miss Rheingold. It was fabulous advertising, and when it ceased, so did the popularity of the beer—although my recollection isn't clear as to which came first at the last. Wouldn't it be great if some national brand, beer or other, got us all involved in balloting for this year's most beautiful Miss? —MALCOLM S. FORBES (1986)

I always say beauty is only sin deep.

—SAKI

No power on earth, however, can abolish the merciless class distinction between those who are physically desirable and the lonely, pallid, spotted, silent, unfancied majority.

—JOHN MORTIMER

Ronald Reagan doesn't dye his hair, he's just prematurely orange.

—GERALD FORD

He had the sort of face that makes you realize God does have a sense of humor.

—BILL BRYSON

Judgment of beauty can err, what with the wine and the dark.

—OVID

Beauty is as relative as light and dark. Thus, there exists no beautiful woman, none at all, because you are never certain that a still far more beautiful woman will not appear and completely shame the supposed beauty of the first.

—PAUL STEEL



Beauty always promises, but never gives anything.

—SIMONE W

The idea that happiness could have a share in beauty would be too much of a good thing.

—WALTER BENJAM

Most beautiful but dumb girls think they are smart and get away with it because other people, on the whole, aren't much smarter.

—LOUISE BROO

Beauty is a precious trace that eternity causes to appear to us and that it takes away from us. A manifestation of eternity, and a sign of death as well.

—EUGENE IONESCO

One very clear impression I had of all the Beautiful People was their prudence. It may be that they paid for their own airline tickets, but they paid for little else.

—JAMES BRADY

The beauty that addresses itself to the eyes is only the spell of the moment; the eye of the body is not always that of the soul.

—GEORGE SAND

A Text...

With the merciful thou wilt shew thyself merciful; with an upright man thou wilt shew thyself upright.

—PSALMS 18:

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Then the covariant $R = \nabla \nabla$ depends on the Christoffel symbols of the connection. Let $T: B \rightarrow C^{k-m}$ be a map. Assume that $0 \leq m \leq k$. Thus 2 continuous Frechet Derivatives.

Point is to affect change by h where $h \in \mathbb{R}^N$. $u_i = 0$. $||h||_{C^3} \leq 1$. $g_{F+V} - g_F = 2 \sum_{k=1}^N \frac{\partial^2 F}{\partial x_i \partial x_j} + \sum_{k=1}^N \frac{\partial v_k}{\partial x_i} \frac{\partial v_k}{\partial x_j}$. $L(v) = g_{F+V} - g_F$.

Then $D(L)(v) = \frac{\partial L(v)}{\partial v_i} = 0$ is equivalent to $\sum_{k=1}^N v_k \frac{\partial^2 F}{\partial x_i \partial x_j} = 0$ for $i, j = 1, \dots, n$. So must have $N \geq \frac{n(n+1)}{2} + n$. $IR^L, L = \frac{n(n+1)}{2} + n$.

$E = M^k$. $X \in \mathbb{R}^n$. $g(X, Y) = g(\nabla_X Y) + g(Y, \nabla_X X)$. $g(z, X) = g(\nabla_z X) + g(X, \nabla_z X)$. $2g(X, Y) = g(\nabla_z X, Y) + g(X, \nabla_z Y)$. Both Bounded By $M \geq 1$. Suppose that $L: B^k \rightarrow L(C^k(\mathbb{R}^n), C^k(\mathbb{R}^n))$. s.t. $||L(u)h||_{k+m} \leq M ||h||_k$.

Perturbation Theorem (Hard step). M compact, manifold @ a free real analytic embedding $\Gamma: M^n \rightarrow \mathbb{R}^N$. h is a $(2,0)$ C^k tensor field on M . $||h||_k < 1$. $V: M^n \rightarrow \mathbb{R}^N$. Basic Iteration Data: $T, \tilde{T}$. T is C^2 . $||L(u)||$. $DT(u)$.



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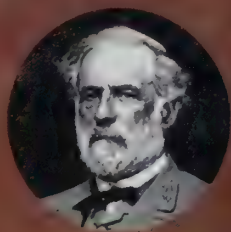
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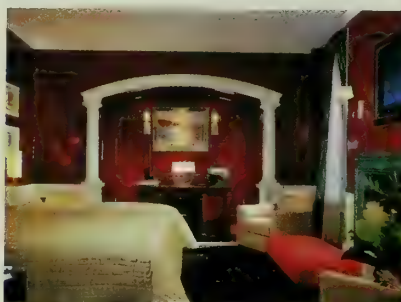
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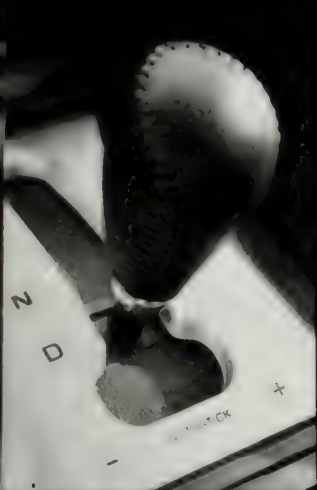
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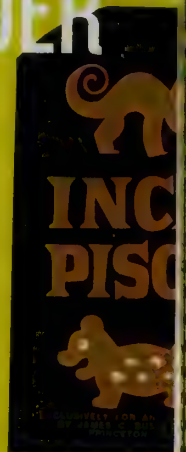


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travel

Scents of Italy

DAPPER MEN EVERYWHERE KNOW that a suit by Ermenegildo Zegna is the sartorial equivalent of a sure bet—Adrien Brody, for one, looked very dashing dressed by same as he accepted his Oscar for Best Actor. Now, this tongue-twisting name in men's fashion is poised to become an odds-on favorite in men's fragrance, with its launch of *Essenza di Zegna* grooming products. How do they smell? A little woody (vetiver and bergamot); a little spicy (cardamom and pistacia); and *molto sexy*. From top: *Essenza di Zegna* 1.6 oz. eau de toilette, \$42; 3.3 oz. aftershave lotion, \$40; and 3.3 oz. after-shave emulsion, \$36; by Ermenegildo Zegna Parfums, at Ermenegildo Zegna boutiques, (888) 880-3462, and all Neiman Marcus and Nordstrom stores.



THE EVIL EYE]

ME GUYS HAVE A BAD ATTITUDE—OTHERS JUST WANT TO LOOK THAT good. Keep everybody guessing with these revamped aviators that are sleek and chic enough to say “grown-up,” but still dangerous enough to suggest the wild child within. *Sunglasses, \$295, by Robert Marc, at Robert Marc boutiques, New York and Boston, (212) 319-2000, www.robertmarc.com.*

lyrical accounts of its or and potency, and it must e been the *crème de la me* of beverages.” The versions that have he down to us in popular tending guides capture some e drink’s essence of mertime sunshine. But they d to be too blandified to ourage much lyricism, and concerned with covering e taste of the Pisco, fear Peruvian or Chilean ndy made from hyper-per-ed muscatel grapes. If you ’t let the exotic, twining mas of the Pisco take ater stage, you may as well ke a vodka and tonic— as *Seinfeld* would say, that re’s anything *wrong* with

that. But you can do better.

Per drink:

4 oz. Pisco (Good Pisco is crucial; we prefer Inca Pisco from Peru, now imported by Marie Brizzard.)

2 tbsp. pineapple juice

2 tbsp. simple syrup

(Boil equal parts water and sugar—this will keep for two months in the refrigerator and means you won’t have the sugar still unmelted in the bottom of the glass when you finish.)

1 lemon

4 dashes of bitters

Fresh pineapple cubes for floating garnish

Pour the Pisco, juice, syrup and bitters into a cocktail

shaker, squeeze in the lemon. Fill up with ice and shake.

Pour into a glass (the bar guides call for a wine glass, but don’t sweat it) and add the pineapple.

EXTRA CREDIT: To give the Pisco Punch that genuine 19th-century, Barbary Coast character, make the simple syrup with ½ cup of sugar, ½ cup of water and ¼ cup of gum arabic solution. A thickening powder made from acacia bark, gum arabic is available in health-food stores (or on the Web); soaked overnight in enough water to cover it, it gives the syrup an extra-silky unctuousness much prized in bygone times. It also kicks up the pleasure of a whiskey sour.



For the Sentimental

DIAMONDS MAY BE A GIRL'S best friend, but it doesn't hurt to get close to some precious metal once in a while—Elsa Peretti suggested as much when she introduced "diamond" stud earrings in gold or platinum at Tiffany & Co. Now, metalsmith Joshua Marrow takes the process a step further for Mitchell Whitney Turnbough Ltd., sculpting round, emerald, pear, marquise or asscher-cut "stones" and mounting them in settings as one would actual diamonds. *Shown: two-carat emerald-cut ring in platinum, \$1,800, at Mitchell Whitney Turnbough; www.mitchell-whitneyturnbough.com. Two-carat cast-platinum earrings, \$595, by Elsa Peretti for Tiffany & Co.; (800) 526-0649, www.tiffany.com.*

MASTERS MAKEOVER

REMBRANDT PAINTED ABOUT 80 SELF-PORTRAITS DURING HIS CAREER. WHEN HE COMPLETED this one in 1634, it didn't sell, so he apparently asked one of his pupils to jazz it up a bit. A hand less deft than the master's, the student transformed Rembrandt into a flashy, strutting Russian with long wavy hair, earrings and a floppy hat. The original portrait lay hidden beneath that gaudy mask for more than 300 years, until a sharp-eyed owner discerned the two artists. Over the next half-century, in various stages, the excess paint was removed, restoring Rembrandt's original, signed portrait to its former glory. It will be on display at Sotheby's New York from May 1 to May 13, and it hits the block at Sotheby's in London on July 10, where it's expected to fetch around \$8 million. *Sotheby's; 44-20-7293-6000, www.sothebys.com.*



Vroom Vroom Ding-a-Ling, Baby



WHEN FRANK SINATRA TURNED 54 IN 1969 was a very good year. So he gave himself this 1969 Lamborghini Miura P400S, custom-made in bright orange—"the happiest color"—with a wild-boar-skin interior, orange shag carpeting and a sweet-sounding eight-track stereo player. Oh, *behave!* Christ will park this shagadelic masterpiece on the carpet at Rockefeller Plaza in New York—along with more than 40 other rare and vintage cars—June 3 and 4. On June 5, it goes under the gavel at Christie's; (212) 636-2680, www.christies.com.



DAVID YURMAN

SON AT 64TH SOUTH COAST PLAZA



NOOSE FROM MARTHA'S VINEYARD

WHEN SHEP AND IAN MURRAY QUIT THEIR NINE-to-five jobs in New York and returned to their hometown of Greenwich, Connecticut, to start Vineyard Vines, a necktie company, people generally said they were nuts. One wise prophet, however, had more faith. "In five years," he said, "I'll be reading your names in *Forbes*." Well, here you are, boys. The only thing nuts—make that "slightly whimsical"—is the variety of designs they came up with for their wildly colorful and distinctive 100-percent-silk ties, everything from flip-flops to mermaids. \$65. (800) 892-4982 or www.vineyardvines.com.

surfin' usa: summer season

MOVIE Mistakes.com is an antidote to the hype accompanying this summer's blockbuster movies. The site pounces on on-screen goof-ups, like the *Star Wars* stormtrooper in the back of the pack who smacks his head on the door frame, or the chap who climbs into one of *Titanic*'s lifeboats with a digital watch on. At press time, the all-time leaders are the first *Lord of the Rings* (179 gaffes) and *The Matrix* (178). Not even the dear old *Wizard of Oz* (80 mistakes) escapes the gimlet-eyed scrutiny: Come again with that version of the Pythagorean theorem, Scarecrow?

Who grows the world's sweetest onions? Ask farmers in Vidalia, Georgia, and Walla Walla, Washington, and watch them come out of their respective corners of the country swinging. As this summer's crop comes in, you can settle the crying question to your own satisfaction by looking up

the **VIDALIA ONION WEB** (web-tec.com/onions/) and **WALLA WALLA SWEET ONIONS** (sweetonions.org) sites. Both offer links to online-order growers, plus recipes, facts, etc. Just don't crowd us with that breath.

Putting off that safari vacation until next summer? Roam the veld vicariously with **AFRICAM.COM**, which has cameras in place at several sites around African game parks. There are also several message boards ("Bearded dragons make marvelous pets—for adults"), diaries from people in-country and plenty of stuff to buy, all for a good cause—the site is free, nonprofit and conservation-minded.

On the other hand, if you've seen one lesser kudu, you've seen one. **CRYPTOZOOLOGY.COM** provides insights into—if not actual sights of—animals that hover on the fringe of legend: Yeti, of course, but also the nandi bear, the mystery fish of Alaska's Lake

Illamna and other zoological question marks. Sightings section allows people to share their experiences of creatures that might be, *without even knowing it*, in your own backyard. "Brant," for example, writes in about a "strange dog-like animal sighted in St. Louis." That's just plain scary.

Is "Purchase Personal Submersible" on your summer to-do list? How about an inflatable "floating iceberg" big enough to stage your own epic sea disaster? Fort Lauderdale-based **NAUTICALNICHE.COM** celebrates offshores, or anyway, off-dock. Amid the water trampolines, clear kayaks and treasure-hunting sonar, some truly over-the-top must-haves. The stylishly appointed Integrity 68 submarine has been slashed from \$4 million to \$2 million and the Sea Wind seaplane, 200 lbs. when purchased fully assembled, is less than \$50,000 in kit form.



AN EAGLE EYE FOR DETAIL

FOR 20 YEARS, LANDSCAPE PAINTER BARBARA SIEBEL THOMAS has painted portraits of seaside and country estates. Now she has added golf courses to her portfolio. "A golf course is a man-made creation of a landscape," says Thomas, "but part of the game is the aesthetic lay of the land as well as the sport itself." Her detailed canvases are available on commission and have already earned gallery huzzahs from such courses as the National Golf Links of America, Southampton, New York ("Late Season," left). Watercolors start at \$1,000, and a three-foot-long oil painting starts at \$3,500. Contact Barbara Siebel Thomas at (212) 966-6830 or BST327@aol.com.



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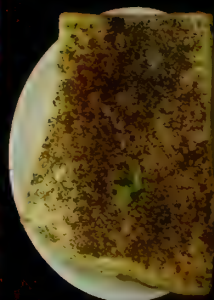


swing for the cheap seats, ezeke

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[Lipitor Not Included

JUST WHEN YOU THOUGHT YOU COULDN'T PICK UP ANOTHER BAD HABIT, Niman Ranch—the Marin County-based natural meat products purveyor—offers you la Familiar to devotees of celebrity chef Mario Batali (and used as a pizza topping a New York restaurant, Otto), lardo is another way of saying "fatback." Niman Ranch cuts theirs from the back fat of especially chubby porkers, cures it in sea salt and spices, and ages it to give it a firm, mildly nutty and peppery taste. Slice a little off and render it for sautéing or any other use you might put lard or fat to when you crave an extra layer of flavor, or wrap it, filet mignon-style, around a piece of meat before grilling. If you're hard-core like us, just slice it off bacon-thin and eat it as is, interspersed with slices of prosciutto, or on toasted bread rubbed with garlic and tomato. It keeps in the fridge for 90 days, or, opened and rewrapped, around 14 days. Plenty of time to repent, go back for more and repent again. www.nimanranch.com.



THIS IS NOT YOUR FATHER'S RALEIGH

RALEIGH: THE LEGENDARY BRAND NAME conjures images of weekend sojourns on lubbering, dependable bicycles. Oddly enough, however, the company built its success racing. (Two years after the company's founding in 1890, Raleigh bikes led the world by winning more than 2,300 racing prizes.) The new Raleigh Heritage Team road bike reprises the vintage look of this English glory, but adds the high-tech precision of Campagnolo 10-speed components and wheels. And thanks to its three-pow aluminum frame, the past never went so far. \$3,800. (800) 222-5527, www.raleighusa.com.

How to keep sight of the future when the present wants all of your money.

For a lot of investors, the day when retirement will finally be within reach can feel elusive at best. Yet the money that could make a difference could already be hiding in the fees and expenses you're being charged to manage your funds. In fact, a hypothetical fund with an expense ratio of 1.3 percent versus one with an expense ratio of just 0.3 percent could be draining thousands of dollars out of your account over time. Dollars that could be working for you.



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A RUNE FOR YOUR MONEY

MOTORCYCLE SALES HAVE INCREASED FOR THE TENTH CONSECUTIVE YEAR, AND ONE REASON may be that they just get better lookin'. The 2004 Valkyrie Rune began a few years ago as the T2 concept bike penciled out on a drawing board at Honda's R&D labs. This month, like Geppetto's Pinocchio, it becomes a real boy. Boy, what a boy. The single-seat 1,832cc Rune so effectively integrates new technology with classic styling that they're calling it "neo-retro." At dealers soon. About \$25,000, valkyrieriders.com.

he un-suv



LIKE THE HIGH RIDE OF AN SUV, BUT YOU DON'T WANT THE LOW GAS MILEAGE AND asiness that come with owning one. Well, the "crossover" market continues row, and the newest good choice is the 2004 Lexus RX 330, a 3.3-liter ute built a car frame rather than a truck frame. Lightweight, good mileage, roomy and hy. "Soft-roading" they call it. The RX 330 is also cleverly innovative. It has a t-mounted video camera for safe backing up, driver's-side knee air bag and aptive" xenon headlights linked to the steering system that swivel as much as 15 rees into a turn. Prices start at \$35,000. www.lexus.com.

ARE WE THERE YET?

THE TEXAS TRANSPORTATION INSTITUTE SURVEYED 75 "STUDY AREAS" NATIONWIDE AND CONFIRMED YOUR SUSPICIONS THAT RUSH-HOUR TRAFFIC JUST GETS WORSE.

1982 2000

TIME PENALTY FOR PEAK PERIOD TRAVELERS (HOURS PER YEAR)

16% 62%

TIME PERIOD WHEN TRAVELERS MIGHT EXPERIENCE CONGESTION (HOURS PER DAY)

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VOLUME OF ROADWAYS WHERE TRAVEL IS CONGESTED

34% 58%

tips for toffs

The art of grace under pressure begins with knowing how to smile. (Literally).

IF ALL YOU ASPIRE TO IS A highfalutin' title and a low golf score, you probably won't get much out of Chase Untermeyer's book-in-progress, *High Exposure: A Guide to How Important People Act*. A former White House aide to the first George Bush, Untermeyer says individuals of substance—true leaders—understand that they not only have a job to do, but they have a role to perform, and that they must always assume they're under surveillance by admirers as well as adversaries. His book is a serious guide to remaining composed, comfortable, confident and considerate. But along the way he reveals some fun hints for projecting the correct image.

WHAT THE HELL IS THE DRESS CODE THESE DAYS?

One rule: When in doubt, dress up. You just can't go wrong. Here

the Marines are the fashion-setters. Whether in dress blues or "tree suits" (cammys), they always look great. Why? Because looking smart reinforces their image as leaders.

YOU SAY THERE'S A PROPER WAY TO EXIT A CAR?

Yes. Swing both feet out at the same time. This allows you to stand up quickly and greet the people waiting for you, which is important if there are cameras around.

WHO WOULD HAVE THOUGHT THERE WERE RULES FOR NAME TAGS?

In fact, there are three laws of name tags. First, always wear a name tag on your right. (Since most people are right-handed, they tend to slap name tags on their left side.) This is because people tend to look to your right side, and you at theirs, when shaking hands. Second,

take it off when being photographed. Otherwise, you'll appear to be wearing a price tag. And third, remove it before you get up to speak. Incidentally, if you're with someone whose name you've forgotten, don't pretend to know who they are. Simply say, "Forgive me, I've forgotten your name."

WHAT ABOUT EATING AND DRINKING AT A PUBLIC FUNCTION?

Try to avoid alcohol. Order a sparkling water instead. Whatever you drink, always keep the glass in your left hand. There's nothing more off-putting than being on the receiving end of a cold, wet handshake. As for food, there's no way to look good eating, especially if there are cameras around. Try to eat something before you arrive, to prevent a hunger-induced lunge for one of those gooey canapés. If you must eat, nibble on bread or soda crackers. At table, slice up and rearrange the food on your plate periodically while eating only a few bites. (President Nixon ate cottage cheese with ketchup at banquets, but this may be too great a sacrifice.)

WHAT'S A GOOD CONVERSATIONAL ICEBREAKER?

I once read that Queen Elizabeth's never-fail trick is to ask, "What is your current project?" Another nonthreatening question is, "What keeps you busy during the week?"

WHERE SHOULD YOU LOOK WHEN YOU'RE TALKING TO SOMEONE?

Focus on the bridge of the other person's nose. It's a neutral space, and the other person will think you're looking him straight in the eye. This technique is particularly helpful if the other person is trying to spook you with a steely glare.

ANY ADVICE FOR PEOPLE WHO HATE TO SPEAK IN PUBLIC?

Always say something meaningful, talk about your hosts and not yourself and be brief. Also, if you don't have much to say, speak slowly. The audience will hang on every word. If you have stage fright, do what Sir Richard Burton used to do: When he was nervous, he clenched his toes.

WHAT'S THE ONE RULE FOR DEALING WITH THE PRESS?

Someone once said, "Never argue with anyone who buys ink by the barrel." It's true. You'll never get in the last word. With reporters, the ancient canons of forbearance, patience and candor work best.

WE UNDERSTAND YOU EVEN HAVE ADVICE ON HOW TO SMILE WHEN HAVING YOUR PICTURE TAKEN.

Let's face it, some people look ghastly when they give an old-fashioned grin, displaying stretch lines and lopsided lips. The first President Bush pioneered a technique that works well: Just open your mouth and twinkle your eyes. For some people it looks better than their real smile.

SPEAKER OF THE BATH PARTY

APART FROM CAMOUFLAGING NICELY WITH the shrubbery, these Bose Free Space 51 Environmental Speakers disperse sound equally over a 360-degree radius. They're waterproof and rather rugged—built to survive temperature extremes, they can also withstand 350 pounds of weight, which should come in handy if one of your poolside guests mistakes a speaker for a stool. \$449 per pair; (800) 444-BOSE, www.bose.com.



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SPAIN

Santiago de Compostela: Here is a corner of Spain you may have overlooked: wet and green, with witchy Celtic roots and a spiritual magnetism that has drawn the Catholic pilgrims and seekers of Europe for 12 centuries. Arguably Europe's original tourist attraction—if that isn't being too glib—Santiago de Compostela ("Saint James of the Field of Stars") feels very young and lively these days. That's partly because it's a university town with plenty of nightlife, and partly because it's the cultural capital of a revived Galicia, a lovely region of northwestern Spain with its own language, cuisine, architecture and largely unfortunate history as an impoverished backwater. • There are plenty of hotels if you visit Santiago, >>

but only one where you *must* stay: the **HOSTAL DE LOS REYES CATÓLICOS**, a 500-year-old hostel that plausibly claims to be the oldest hotel in Europe. It was founded by the ubiquitous Ferdinand and Isabella as a hospital and refuge for the pilgrims who thronged the town to worship at the cathedral's reliquary, said to hold the remains of the Apostle James. The Reyes Católicos built (of sturdy Galician granite) directly on the cathedral square, meaning that its front room



Just don't order *caballo*: The restaurant in the splendidly mucked-out former stables of the Reyes Católicos.

today look out on the Baroque façade of the cathedral, one of the most impressive sights in Europe. Dazzlingly carved with soaring triple towers, the façade's blue-green oxidized window frames and lichen-crusted heights here and there sprouting live plants, give it a look of antiquity unknowable as Borobudur, and exotically ornate.

But the Reyes Católicos itself is a tourist attraction. Built around a series of four internal courtyards or cloisters named after the four evangelists, it is a mix of Renaissance and Baroque styles on a grand scale. Among the advantages of having a room here is getting to poke around the labyrinthine corridors and courtyards. Down one hallway is the *depósito*, where they kept the leeches ready for action (they don't lodge guests in the room).

out in St. Luke's cloister there is a covered well and a calm garden of camellias; in St. Mark's cloister a carved series of naughty gargoyles—the masons were allowed their own finishing touches—including a famous one graphically complaining of hemorrhoids.

The hotel, operated by the quasigovernmental Paradores de Turismo organization, is surprisingly well-run for being such a sprawling place. The decor is also a pleasing surprise. There is transporting, eclectic furniture everywhere in the public spaces, a commingling of antique and reproduction pieces in folk styles and what we would call "mission" style, and often more artistic than functional: side tables with chunky, narrow drawers and little surface plane on top despite a massive base, chairs with exaggerated, rope-turned legs. Somehow it's all right in place.

Our room itself is comfortable rather than chic, but with a cream puff of a sparkling new marble bathroom. Its windows let out onto a side view of the city rather than the cathedral, which is sort of a break in one way: We weren't awakened at the crack of every dawn (or late at night) by the bagpipers who roam the square. Love the pipes or not, they're part of the Celtic remnant here and in a few days' visit you'll probably get all the wailing you ever craved.

Galicia, with its abundant seacoast and fertile inland farms, is one of the great eating places in Spain—if not the world—and the Reyes Católicos' restaurant makes an ambitious effort to capture the magic. ("We have all the regional foodstuffs at the chieftown," promises the English version of the menu.) It is housed in a spectacular space, the hotel's sleekly renovated and massive high-arched former stables. There are burnished aluminum panels behind the black leather banquettes, quarry granite walls steamed nearly white and polished, dark herringbone-patterned wooden floors. As if to reassure diners that the place hasn't gone

EYES ONLY

Hostal de los Reyes Católicos,
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Saints reserve us—the hotel's ornate "Galician gothic" front door.

completely off its traditional rocker, an enormous, glistening boar's haunch in a press dominates the central table, hoof-end intact and well-furred.

For starters, my wife and I order pressed octopus in a light vinaigrette sprinkled with paprika, a dozen sweet, local Vigo oysters and a bottle of Albariño, the wonderful, firm and fresh white wine of the Galician coast. The suckling lamb arrives in chunks, onstage in a kind of bandshell of cottage fries, with a footlight row of Galicia's tiny green peppers (one of the baskets of each May's harvest is sent to #1 aficionado, King Juan Carlos I). It is all very elaborate and mostly successful, but it leaves you itching to get out amongst 'em in the city proper.

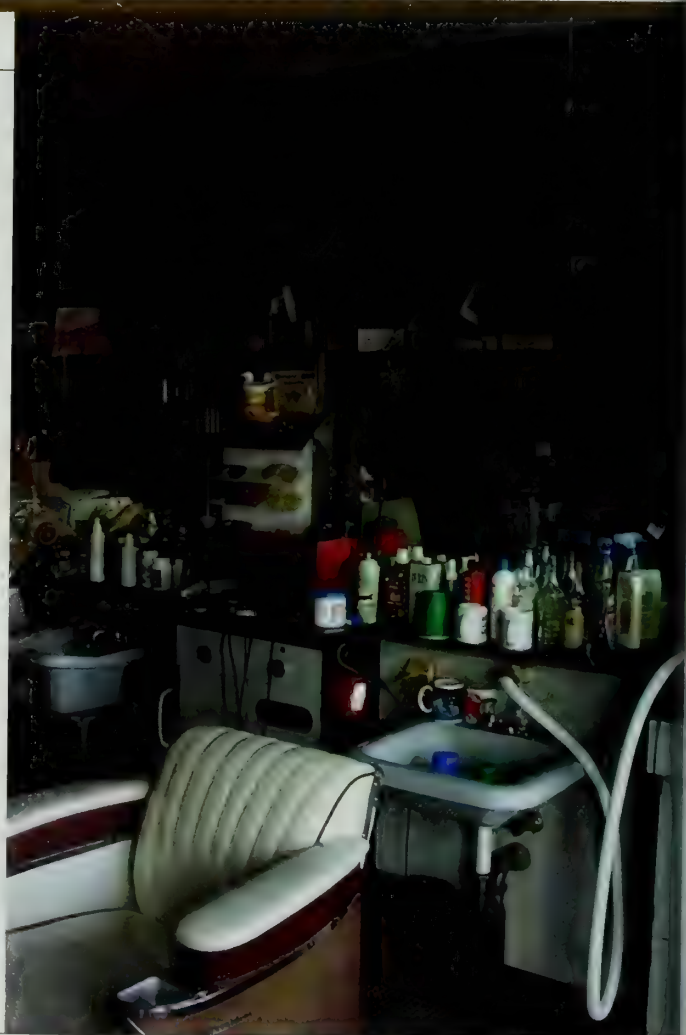
Set like a mini-Rome among its seven green hills, the old city of Santiago de Compostela is a story you have to unfold for yourself by wandering about and keeping your eyes open. There is the unmarked door on the Calle San Pelayo, for example, where the nuns of a Benedictine monastery sell their "St. James Tart," a flour-free cake of almond, sugar and egg. There is the route of the "Paris-Dakar Race," the student drinking fest that begins at a place called París and ends at a *cervecería* called Dakar. The entrant must down a glass of wine at every tavern on this treacherously, notoriously bar-studded course. There is the cathedral square, with its massive, swinging censer pulled by eight men—it once helped fumigate the place of all those sleeping pilgrims—and an Aladdin's Cave of ornamental wonders, the subject of many books itself. This is still a spiritual place, but it is also a spirited one with a wealth of pleasures, a worthy pilgrimage for the soul one way or another. —RICHARD NALL

SPRINGTIME IN AMERICA

Lake Michigan: The first thing we notice about Route M-22, which runs up the eastern shore of Lake Michigan from Manistee to North Point, is the abundance of roadkill. That is a sure sign that animal populations are at healthy levels, at least on the highways. Among the expired are raccoons, groundhogs, deer and porcupines. The second thing is yard sales, which pop up every few miles. At one of them, which we have to drive down an unpaved road to find, everything is 15 percent off. "Except for the Winchester rifle," the old lady says. Alongside her

firearms, tumblers with pinup girls on them, and arcane kitchen gadgets like a Spritz cookie press and an automatic donut-dough extruder (mint in box), she has stacks of *Ladies' Home Journal* and *The American Home* back issues from the 1950s and '60s. They look like they've been stored in a climate-controlled vault, the colors unfaded, the pages as crisp as the day they landed in her mailbox.

This whole part of Michigan feels like that, as if it hasn't been touched in 40 years. We drove up here from Grand Rapids, past Ludington, and into Manistee and Benzie counties, and we feel like we've traveled back in time to a pre-sprawl world. There are no strip malls or chain stores, just fields and old barns and little towns full of beautiful houses with



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ASTON MARTIN

Power, Beauty and Soul

big porches. And to someone like me, who had never spent time on the Great Lakes, the shoreline was disorienting. The beaches look like ocean beaches, complete with white sand and dune systems—the water is even a brilliant Caribbean blue—but with no smell of salty decay. Some say the water in Lake Michigan is prohibitively cold, but if your heart is still beating after the initial shock of entry, you're fine.

The food in these parts differs considerably from what you're accustomed to reading about in *Forbes FYI*. Things are not poached, braised or pan-seared here, if you know what I mean. When I ask our waiter at a restaurant in Empire how the tater tots are prepared, he lowers an imaginary basket into an imaginary vat of oil. "We're working on a way to fry coleslaw," he says, "but we haven't perfected it yet."

Frankfort, the largest town in Benzie County, has a great rib joint called Dinghy's, and a classic ice cream parlor next door. A few blocks down is a combination barber-, gun- and tackle shop called Dewey's. As for accommodations, we're staying at the Wayfarer Lodgings in nearby Elberta. For \$40 we've got our own cabin with a two-person swing outside. We're sitting there now drinking cold local beers, thinking that if we ever had to enroll in the witness protection program, we'd request this place. Manistee and Benzie counties are on the same latitude as Vermont and New Hampshire (and in autumn the foliage changes with similar intensity). Frankfort is two and a half hours north of Grand Rapids by car.

—THOMAS JACKSON



NEW YORK

Manhattan: Deep in the heart of downtown Manhattan, hard by the once-dicey, now-toney boutique- and restaurant-filled Meatpacking District and a stone's throw from some of the city's most avant-garde art galleries, **THE MARITIME HOTEL** is poised to open this month. The stylish 125-room hotel is the second collaboration between renowned restaurateurs and nightclub impresarios Eric Goode (of Area, MK and Bowery Bar fame) and Sean MacPherson (known for Bar Marmont, Swingers and Jones in L.A.). The first was the popular Park restaurant, also in West Chelsea. Fittingly, the Maritime will occupy an iconic modernist building with a lushly planted 10,000-square-foot interior courtyard and a past as colorful as the neighborhood. Originally designed as housing for the National Maritime Union of America (and home, for a time, to both the scandal-ridden Covenant House and the Chinese government studies center), many of the building's details—



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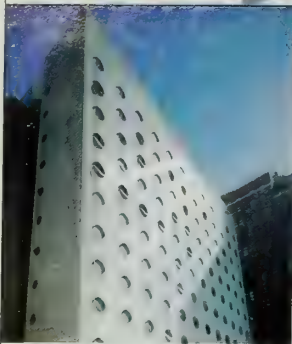
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from the five-foot, westward-facing porthole windows to the snug teak built-ins that grace every room—are inspired by the seafaring life. Four penthouse suites offer spectacular Hudson River views, but the hotel's public spaces are the real showstoppers. A Japanese restaurant occupies a vast, dramatically vaulted subterranean space, rendered intimate through the judicious use of dim lighting, richly glazed ceramic tiles and cozy, butterfly-print banquettes. A Mediterranean-style café at the plaza level meanders through the magnolia-dotted garden. Breakfast al fresco anyone? —KERRY MULLETT STROM

EYES ON

The Maritime Hotel; rates start at just under \$200 per night. 363 W. 16th St., New York NY 10011 (212) 242-4300, www.maritimehotel.com

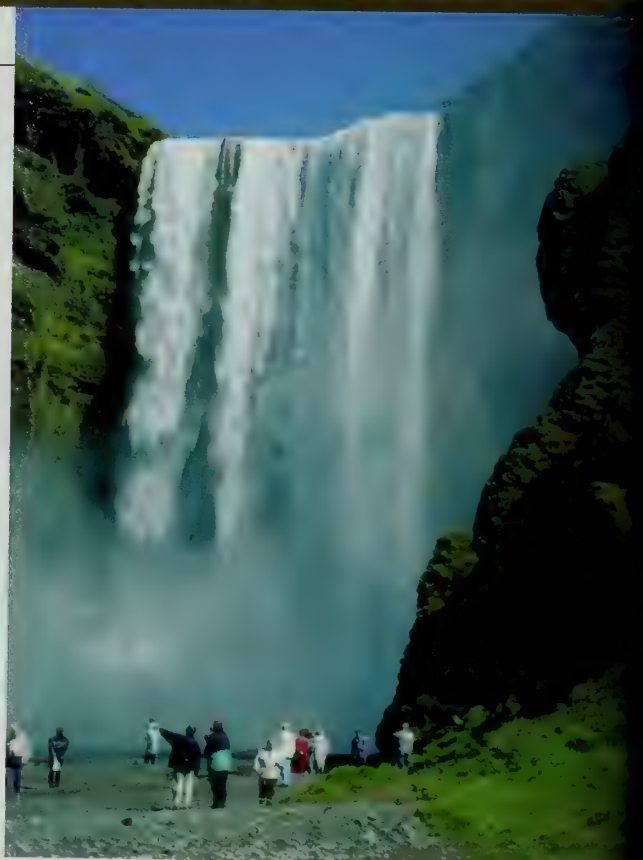
FALLING WATER IN ICELAND

Skógar: Lured by the promise of extra-long days and spectacular lunar landscapes, I set out last summer to explore the weird wildness of Iceland outside of suddenly-hot-and-hip Reykjavík. I packed my esthetic agenda with nature's action art: spewing geysers, rumbling pots of steamy liquid earth, gaggles of pink-footed geese, eider ducks and puffins, and eye-stretching fjords. Never mind chic hotels—I assumed design-consciousness stopped at the Reykjavík city line anyway—all I needed was a warm, dry bed for the six hours of daily darkness. When I parked my rented Yaris (a car that appears to be designed by a toaster manufacturer) in front of the **HÓTEL SKÓGAR'S** typically Icelandic cinder-block-

and-corrugated metal building, the evening didn't seem to promise much more than that.

But stepping into the lobby, my expectations rose unexpectedly. Candles flickered. A Nina Simone CD crooned from within. Generous vases of exotic flowers scented the air. Diners laughed through polyglot conversations, devouring plates of Icelandic lamb and salmon around a snapping fireplace in the restaurant.

Skógar, a three-hour drive east from the airport in Keflavík, is an exquisite rural area, famous for its waterfalls, particularly Skógar Falls itself (at right), which tumbles between two glaciers practically into the hotel's backyard. There are also black-sand beaches, sea cliffs like cathedrals and a notable folk museum. To Frida Jónsdóttir, a photographer in Reykjavík, and her cousin Guðbjörg Gumundsdóttir, it seemed just the place to open a small hotel, which they did three years ago after buying the building, a former veterinarian's office. Says Jónsdóttir, "We put our best recipes together and asked our friends to help with decoration and design." Some of those friends happen to be artists and architects—and travelers.



"We ended up with things from all over the world, lamps from Greece, bedsheets from Portugal, furniture from France." The furnishings may be eclectic, but the overall effect is somehow very Icelandic: uncluttered, nothing in excess, and lots and lots of white-on-white. Why waste space on a closet when handsome nickel-plated hooks with sturdy hangers will do the job? Each of the 12 rooms, hung with the work of local

artists or former hotel guests, has its own quiet personality.

I had been mentally savoring that lamb dinner, which Jónsdóttir prepares herself, heaping the plate with roast peppers, garlic and potatoes. I savored it for real with a Drostdy-Hof Merlot from South Africa on the table and Louis Armstrong-Ella Fitzgerald duets from America in the background. Very fine; very Icelandic.

—MARGARET SHAKESPEARE

EYES ONLY

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It Depends on What Your Meaning of Par Is

Bill Clinton survived on the golf course as he did in politics. An excerpt from *First Off the Tee: Presidential Hackers, Duffers, and Cheaters from Taft to Bush*

Summer of 1999 was an exhausting year in American history. The president had dragged the nation, his aides, friends and his family through a year of lies and recriminations. It had been as frustrating for the American people as it had been for Clinton. And in late August, just six months after escaping removal from office, the president decided to recharge his batteries by going to Martha's Vineyard for two weeks to raise a boatload of campaign cash for the Democratic Party and to cheat his way around the Nantuxet Golf Club.

Several times in the 1990s I was fortunate enough to play that beautiful gemstone of a course on the island's north shore. I learned the hard way that Farm Neck is one of the nation's more unforgiving public courses, especially for a beginner like me who aspires to break 100. The course has small rolling hills that are usually lashed by powerful wind gusts off the Atlantic. Most of the dogleg holes have sharp turns that avoid cranberry bogs, forcing your approach shots to sail into the snarl of the sea wind. The more the wind, the easier it is to deposit



at least a half-dozen balls in the tall weeds or among the shoreline's rocks.

But each day, on the wires, I read that Clinton had managed to conquer Farm Neck. He put up an 82, and then an 81. A veteran reporter told me that two years earlier, Clinton had claimed to have shot a 79 at Farm Neck.

It was the 79 that got me. Breaking 80 had been an elusive goal of Clinton's, but he managed the feat in the most suspect way. Clinton took credit for this 79 on an especially blustery day in August 1997 after reporters observed that he needed three shots off the first tee to hit a playable ball. The first shot soared into the trees, the second zipped

there is nothing worse for a White House correspondent than trying to gin up stories during a president's August vacation when the desk back home is ravenous for copy. There was something about the 79 that inspired an anger that other Washington boondoggles had never inspired. So the press corps fired prickly questions at McCurry about the score, but the President's spokesman declined to describe how Clinton had pulled it off. In Washington, "no comment" is often translated to mean "guilty as charged."

I work as an investigative reporter for *The New York Times*. At the time, I had spent two and a half years covering

ident's approval ratings spiraled mer higher and higher.

In hindsight, Clinton's claim of 79 was nothing, really, compared the morning at the White House January 1998 when Clinton fixed a furious glare on the cameras, shook index finger for emphasis and hiss "I did not have sexual relations with that woman, Miss Lewinsky." Then, of course, there was Clinton's infame under-oath truth-dodging response to a potentially incriminating question before the grand jury, "It depends on what the meaning of is...is." With a record like that, did it really matter if the President lied about shooting a 79 on the golf course?

To quite a few Americans, it doesn't matter. Cheat us here, they seem to say, and he'll cheat us over there. Perhaps it was the brazenness of the claim. Golfers understand: It is nothing to acknowledge your score was enhanced by a few mulligans (the notorious do-over shots often taken by amateur golfers but forbidden by the United States Golf Association's Rules of Golf). It is quite another thing to talk mulligans and tell the world your score is legitimate. A golfing friend called me on the phone, a pal who had helped me tear up Farm Neck. "Can you believe these scores Clinton is taking credit for?" my friend asked.

A similar indignant buzz ricocheted around clubhouses and practice greens all over the country. Rob Duca, the sports columnist for the *Cape Cod Times*, wrote, "Seventy-nine really isn't all that difficult when you've got guys with Uzis guarding the woods and playing partners who consider anything inside 75 yards to be a gimme."

It was late August in Washington the streets were empty, and it was the slowest of news weeks. I didn't have much to do except wonder about the President's 79. And so I called a few honest people (by Washington standards) who had played a round or two with Clinton.

"Have you ever seen the President shoot a legitimate 79?" I asked four Friends of Bill.

Clinton took credit for this 79 on an especially blustery day after reporters observed that he needed three shots off the first tee to hit a playable ball.

onto a nearby fairway and only the third shot landed in bounds. And, of course, the President decided to play the third ball. If the rules had been followed strictly—a very big if, in Clinton's case—he would have started the round with a 5, meaning he would have needed to hit two over par over the 18 holes to card that 79. And that was impossible. But even if you grant him the two mulligans as warm-up shots (it's just a friendly game, right?), he'd still have to shoot seven over par for the course! And that was impossible.

Of course, the reporters were forbidden from following the President around the 18 holes with scorecards and little pencils. After the round, Mike McCurry, the White House press secretary, dutifully announced that the President had indeed shot a 79, only the third time in his life that he had crossed the magical 80 mark. By contrast, Eisenhower, who was a far more disciplined player than Clinton, managed to break 80 fewer than a dozen times during his lifetime.

First, reporters howled with laughter at the 79, but the laughs quickly gave way to a smoldering anger. Perhaps the reporters' fury was fueled by boredom;



Bill Clinton. I had written hundreds of stories chronicling the many political traps that Clinton had built for himself, and his Houdini-like way of escaping them while leaving his political enemies looking ridiculously overmatched. I knew, from experience, that Clinton often succumbed to the urge to stretch the truth like taffy or, worse, tell preposterously baroque lies. Clinton's natural ability to glide from misstatement to misstatement, with few consequences, had confounded his enemies and frustrated some members of the press. Yet even as the denials mounted and the revelations piled up, the Pres-

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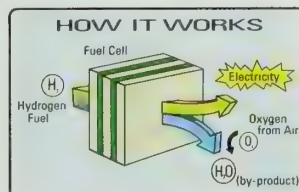
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The answers were: no, nope, no way and one of those hysterical laughs that sound as if they might last all afternoon.

Then I asked them how the President managed to shoot in the low 80s, the range that he claimed. "Mulligans and gimmes," one of his friends told me. "The President treats himself to lots of mulligans and gimmes. He likes to say he grants presidential pardons to the bad balls." This same friend added, "I haven't seen him shoot a legitimate round in the 80s. Without all the mulligans and gimmes, he'd be in the 90s—okay, maybe the low 90s. Maybe."

So I wrote a piece about Clinton's quaint habit of bending the rules a bit on the golf course, as nearly every weekend golfer does and many past presidents have also done. It was all intended to be some harmless late-summer fun. The story was published in the newspaper's Week in Review section, and it was reprinted in newspapers around the country.

Clinton hated my story, but to this day, I am convinced he was most of-

fended by the photographs that accompanied it. On the front page of the Week in Review, a three-column, full-color photograph depicted the President in the horrible throes of what could only be charitably described as a painfully wild swing off the tee. His eyes were bulging, his cheeks were puffed and you just knew that after the President was done creaming the ball, a brigade of Secret Service agents accompanied by bomb-sniffing dogs was not going to find it. Inside the section, a second photograph wasn't much better. This one showed the President sheepishly hunting for his lost ball along a stand of evergreen trees.

I wrote that President Clinton was addicted to mulligans, saying he often "pardoned" a bad ball without even bothering to ask the permission of his playing partners, a practice that offended more than one of them. As Clinton neared the end of the back nine of his time in the White House, I presented the mulligan as the perfect metaphor for his presidency. The voters,

the Congress and, yes, even the First Lady had all granted the President a few mulligans.

"Cynics in the gallery continue to believe that President Clinton's golf scores—he claims to shoot around 80 and as low as 75—are enhanced by at least a half-dozen mulligans," I wrote. "Sure, the President is a pretty good golfer, the cynics say. He's just not that good. Skepticism is, of course, understandable. Mr. Clinton, after all, claims that he did not inhale, and that he did not have sexual relations with that woman. Why wouldn't the President also put the spin on his golf score?"

But it was this observation that annoyed the President most of all. "Apparently being president means never having to say double-bogey."

Perhaps not surprisingly, I heard the President's verdict from one of Clinton's closest friends, Terry McAuliffe, a gregarious and prolific Democratic fund-raiser who happened to be a frequent golfing partner of the President. McAuliffe called me a



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AGED 15 YEARS

ne on a Sunday afternoon, one week
r the article was published. "Don," he
, his tone signaling the gravity of his
gnment. "The President is furious
n you. Your piece was horrible. You
te some very damaging things." He
nt on to tell me that I managed to
dly hurt" the President's feelings.

"It's all I heard about for five straight
s," groaned McAuliffe, who had spent
ch of the past week with the Clintons
ing the last leg of their late-summer
ation outside Syracuse, New York.
he President is so mad at you. He will
er forgive you."

I quickly reminded McAuliffe that the
f piece paled in comparison to some
er unflattering things that I had writ-
about Clinton—his excesses with
onica Lewinsky, his leasing of the
ncoln Bedroom to wealthy political
hors and the many indignities heaped
on him by Independent Counsel
nneth W. Starr, including the fact that
rr ordered a doctor to take blood out
the President's arm, in the White
ouse Map Room, in August 1998, to
ve once and for all that the leader of
e free world had left incriminating
dence on a certain navy-blue dress
rchased at the Gap.

And I gently reminded McAuliffe that
articles, published in *The New York
mes* and newspapers all over the world,
d portrayed President Clinton as a
bitual liar, an adulterer and a cad.

"Those things bothered him, too, but
is is different!" McAuliffe shot back.
his is much, much worse. You called
m a cheater! The President takes his
lf game...very seriously."

Later it occurred to me that McAuliffe
ver disputed a single fact in the article.
e never simply said, "The President
es not cheat at golf." It was only after
cAuliffe had slammed the telephone
own that I began to wonder why Bill
inton was angrier about getting caught
eating at golf than cheating on his wife.
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Diary of a Country Gentleman, Part III

Mud season ushers in visiting relatives, and other pests.

After a cold, snowy winter preceded by a rather early Labor Day blizzard and followed by a somewhat late Memorial Day 22 inches of flurries, summer arrived right on schedule in New Hampshire. The ice broke up on Lake Wannanetskee in plenty of time for the Fourth of July festivities. There was more than enough open water for the annual patriotically decorated parade of float boats. And a picnic excursion to the beach to stand wrapped warmly in blankets, waving sparklers, was a welcome respite from the chores of agriculture.

I have decided to turn our summer place into more than just a hobby farm. I think this will be a wonderful learning experience for our children, Muffin, 6, and Poppet, 3. Also, I've signed a contract for a new book, *The Approaching Global Catastrophe—Turn Your Summer Place into More than Just a Hobby Farm*.



I've bought a tractor, a classic old John Deere. I got it from a local family who, after nine generations at Boulderstone Farm, have given up tilling the New England soil and opened their land to tourists as a horizontal rock-climbing venue. They advertise it as suitable for all ages and much safer than rock-climbing of the vertical kind. I plowed a strip of our old hay field 1,750 feet long. And I will plow more once I figure out where the reverse gear is and back out of the woods. I'm consulting with the U.S. Department of Agriculture county extension office about the best crop to raise. "My guess," says my wife, "is party ice."

The barn is now replete with livestock: Two sheep (named by the children), Bob the Builder and Sleeping Beauty; six chickens (named by me), Eggsaggeration, Eggsasperation, Eggu-



I plowed a strip of our old hay field 1,750 feet long. And I will plow more once I figure out where the reverse gear is and back out of the woods

menical, Eggsistential, L'eggs and Et-In-Arcadia-Eggo; a pony (named by its previous owners, who were apparently admirers of the American Indian ethos), Crazy Horse, and a 225-pound pig.

My kid sister, Alice, has come from San Francisco to stay with us, bringing considerable horticultural skills and the pig. It traveled with her on the airplane in its own seat (first-class). This is a Vietnamese potbellied pig, the kind that was briefly popular as a pet with trendsetters before the trendsetters realized that Vietnamese potbellied pigs can grow to a size of 225 pounds. The pig does not have a name because, Alice explains, "She can't manage to tell me what she calls herself. It's the fault of the Bay Area liberals. They refuse to understand the value of English immersion. If animals are going to thrive in America, they need communication skills."

Alice is a romantic about animals, and about everything else. She has been since she was a child. Dad was worried

Alice might become a nun. He was so worried that he considered converting to Protestantism. In fact, Dad went so far that, once, when Jehovah's Witnesses knocked on the door, he invited them in. (This did not work. The Jehovah's Witnesses ended up staying for martinis and went home with several borrowed copies of G.K. Chesterton's Father Brown mysteries.)

Anyway, Alice was always far too romantic for the quotidian banalities of family and marriage. [N.B. to copy editor: delete coarse marginal note scribbled by my wife.] Or so I had thought. But then, in her early 40s, Alice fell in love with a university professor. The professor was hired by the political science department at Colgate-Palmolive College in nearby Cheeseborough Ponds, New Hampshire. And Alice gave up her rather lonely job as the California Republican Party's liaison to PETA and followed her beau East.

Alice has been a tremendous help on

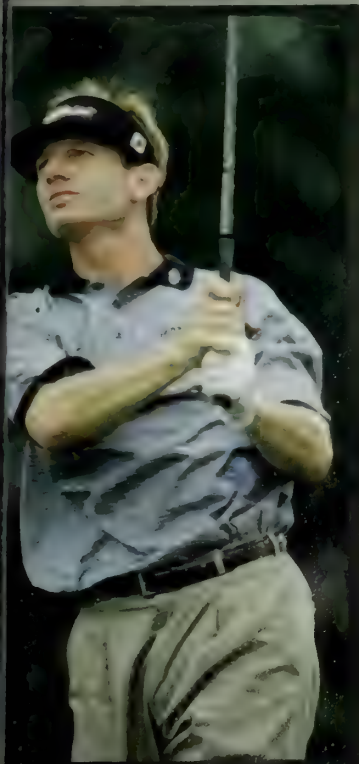
the farm. It was she who, after the demise of Eggumenical, Eggsasperation and L'eggs, pointed out the locking our rather aggressive male dog Karaoke Star Barbie (named by the children), into the henhouse at night to guard against foxes was not a productive strategy. The children adore her. She is a genius at keeping them occupied. She told them a story about how every little living thing on earth is a precious gift from God, and, ever since, Muffin and Poppet have spent hours collecting individual carpenter ants from the house, carrying each one outside in cupped hands and releasing it into the wild. Actually, the pig has been helpful, too. At first Karaoke Star Barbie was jealous. But after a short scuffle with the pig (picture a World Sumo Wrestling Federation performance), the two became pals. They passed the day together happily digging huge holes in the lawn, into which we are planting young fruit trees. Also, being pressed between 225 pounds of stern pig and a fence post is the only way to get Crazy Horse to hold still long enough for Muffin to sit on her pony.

Alice is cheerfully tolerant of the meat-eating in our household, even when my wife said, while serving beef bourguignon on the first night that

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Alice was here, "It's got vegetables in it, for pete's sake." And Alice did not press the point when the dog rejected mucilage and resumed consumption of Alpo. What's more, Alice has been encouraging about my own attempts in the direction of a vegetarian diet. "The Bombay company does not test gin on animals," she notes.

Alice's boyfriend, Dr. Frank Glosspan, is a practicing Catholic and a staunch Republican and would be something of an anomaly in academic circles if he weren't stark raving mad. Dr. Frank's field of poli-sci specialization is micro-democracy. His Ph.D. thesis was "Liberty, Equality and Fraternity in *Salmonella typhimurium*." He rewrote and expanded this for the general public in his best-seller, *The Universal Declaration of the Rights of Pizza Toppings*. Dr. Frank is a leading advocate of providing all carbon-based life forms with green cards—as long as they don't abuse the U.S. welfare system. "There are billions and billions of members of just the class Insecta alone," he says. "Think what they

could achieve if they had property rights and rule of law! Plus," he confides, "insects would vote GOP."

The romance between Alice and Dr. Frank seemed to be proceeding well. He had been a frequent dinner guest at our house, bringing with him Tupperware containers of calcium, niacin and riboflavin. (He tried to eat only inorganic matter.) After coffee (hot water with caffeine alkaloid prepared synthetically from uric acid for Dr. Frank), he and Alice would retire to the barn. "And read John Stuart Mill to the pig," said my wife. Although I hasten to add that she said this with a smile. My wife liked Dr. Frank. So did the kids. "I'm not eating my vegetables," said Muffin, "because of my love for all broccoli-kind."

Dr. Frank approved of my farming operation and said that it's clear that I'm not exploiting animals, they're exploiting me. He'd even gone so far as to give his blessing to my pursuit of upland game. "I've watched your brother shoot skeet," he told Alice,

"and I can see that he'll be practicing 'catch and release' on grouse this fall."

Alice and Dr. Frank have gone on long hikes in the Beige Mountains with the pig. They've taken the pig swimming in Lake Wannaneujetskee. They even visited the Vermont birthplace of Calvin Coolidge, bringing the pig along in the back of Dr. Frank's Toyota Prius. When the pig was barred from the Coolidge homestead, Dr. Frank dressed it in his own tweed sportcoat and claimed that the pig was a prominent senator from Mississippi. Tour guide, being a young man with a earring and a soul patch, believed it.

Dr. Frank and Alice appeared to have been made for each other. We had all been waiting for Dr. Frank to pose the question. The upcoming Animal Companion Ball, given by the New England Society for the Abolition of Chattel, seemed a likely occasion. And indeed, last night Dr. Frank arrived at our house bearing the look of a man with a serious proposal to make. After cocktails (synthetic ethanol and so forth for Dr. Frank), he and Alice—as was their custom—went to the barn. My wife and I discreetly retired to our bedroom. A while later Dr. Frank's Toyota drove away with a low electric hum, and I heard Alice come into the house alone. There was a sound of weeping in the living room.

"I'll go down and see what's the matter," I said.

"Better let me," said my wife.

My wife returned to bed saying, "Dr. Frank bought an invitation to the Animal Companion Ball."

"But that should have made Alice happy," I said.

"The invitation was for the pig," said my wife. "Alice is quite upset. She says she's going to spend the night in the barn."

"Imagine," I said, "no one to love but a pig."

"I can imagine it perfectly," said my wife.

Alice was up before everyone this morning. I could hear her bustling around in the kitchen. "What's that smell?" I asked.

"Bacon," said my wife. •

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Red Star Rising

Is McLaren Vale the world's next great source of trophy wines?

McLaren Vale burst onto the wine scene in the late 1990s, much to the surprise of many international know-it-alls. Where had these sophisticated, price-spiraling wines like Noon "Eclipse," Day Brothers Block 6 Shiraz and d'Arenberg "The Dead Arm" been hiding all these years? The answer was in plain sight—not that many people, even in Australia, saw them.

It was all about telling the truth. And when that finally happened one day in 1989, everything turned around for McLaren Vale. For well over 100 years, the magnificent coastal vineyards here, in what amounts to the far suburbs of Adelaide, Australia, had been producing deep, sexy, velvety red wines. The problem was that all too

much of this head-turning stuff was being shipped out anonymously and bottled by wineries in places people had actually heard of, like the Hunter and Barossa valleys.

In far more wines than most drinkers ever knew, McLaren Vale provided, as a local shipper puts it, "the midpalate of Australia." One story people here like to tell is about the day a famous Hunter Valley vintner was chagrined to see a tour bus pull up next to a tanker truck while it was pumping McLaren Shiraz into his vats, with hoses disappearing into his winery. As the visitors milled about the parking lot, the quick-thinking vintner yelled up to the truck driver, "Nearly full now, mate? They'll sure be grateful to have

this tankerload of our great red wine back in McLaren Vale!"

For McLaren Vale wineries, this state of affairs was not only a wound to pride but economically perilous. Bad enough that it was nearly impossible to make a living selling bulk (versus bottled) wine. But when times got tough—a not infrequent situation in the boom-and-bust wine business—the big companies could drop a small supplier overnight.

Strange as it seems today, when so many McLaren Vale wines are hotly sought after, d'Arry Osborn of d'Arenberg, the dean of local winemakers, well recalls, "We struggled for many, many years just to sell any wine to anybody." As recently as 1985 the

Australian government felt it had to ride to the wine industry's rescue, paying grape growers to uproot vines, presumably to make way for some more promising crop. This helped clear out some of the region's deadwood—like mediocre Palomino grapes for sherry making—but it also took a sorry toll

every three days.

In McLaren Vale, the 40 wineries of the early 1990s mushroomed into almost 80 by the millennium. Where a few years before farmers had been paid to rip out their grapes, now orchards and fields of barley gave way before a tidal wave of vines. By the fall of

the area's relatively small coterie of winemakers had by now become abundantly clear to Australian wine lovers in general: McLaren Vale is one of the world's blessed spots where—quirkily nature has put everything in place to produce luscious wine grapes.

There's not a line you necessarily notice driving through the bland, suburban sprawl of Adelaide, but as the concentration of houses and strip malls thins, the countryside takes on a look for all the world like

"Now when you drive across McLaren Vale and see a field *not* planted to vines you wonder why—does the farmer just hate grapes?"

on McLaren Vale's great heritage of 50-, 60-, 80-year-old vines of Shiraz and Grenache. As it turned out, all the government really needed to do was make wineries tell the truth.

It's a stretch to say that the Label Integrity Laws adopted by the Australian government in 1989 completely transformed McLaren Vale all by themselves, but the effect was profound: For the first time a bottle of Australian wine, by regulation, had to acknowledge where the great majority of its grapes had come from. McLaren Vale's days as an uncredited actor were at an end. And in the wine world, this is an even bigger deal than it seems at first blush, because in fine wine—as opposed to the heavily branded cheap stuff—the reputation of the place it comes from is everything. Even a property as eminent as Château Lafite Rothschild acquires an extra glow from basking in the reputation of Bordeaux...and vice versa. With the new laws, it was now McLaren Vale's chance to let its own stars strut their stuff.

The labeling laws were good news all right, but even better was that the laws were only part of a sweeping new spirit of the times, a history-making taste revolution. Like a stodgy old mule bitten by a yellow jacket, Australia's wine business suddenly jumped up in the 1990s and got wiggling. Wine got buzz. Twentysomething winemaking superstars began popping up all over the map—including the part of the map outside of Hunter Valley and the pricier precincts of Barossa. For several years during the late 1990s, a new winery opened its doors in Australia

2000, Mark Lloyd, the urbane owner of Coriole Winery, could stand at his cellar door, looking out over the picturesque, rolling fields in the distance, and remember when spring meant "whole hillsides and pastures blooming with white flowers from the almond trees. Now when you drive across McLaren Vale and see a field *not* planted to vines you wonder why—does the farmer just hate grapes?"

New vineyards and wineries are one thing, of course. More to the point, the region's level of expertise had soared. Where ten years earlier there had been a smattering of trained winemakers amid a host of seat-of-the-pants amateurs, there was now an influx of dynamic young turks with enology degrees and experience in cellars all over Australia and the world.

What had been obvious for years to

the bosky precincts of Napa Valley or western Sonoma. There is a similar dry, Mediterranean look to the landscape, with a lot of gently undulating hills and a few rugged escarpments scattered about. Instead of yellow mustard, the hillsides here are clothed in a lovely, sheep-choking purple wildflower some call Patterson's Curse and others Salvation Jane.

It is somewhat disorienting, of course, to have Christmas as a central point in the growing season, and Valentine's Day the traditional start of harvest. And the closer you look, the more exotic the place gets: One of the wine country's most feared vineyard pests—snipping vine canes with vicious, surgical-looking cut—is the sulphur-crested cockatoo.

Further inspection also shows that McLaren Vale, though covering only

A Taste of McLaren Vale

CORIOLE 1999 "LLOYD RESERVE" SHIRAZ (\$70)

Broodingly dark and monumentally scaled, from 75-year-old vines, this is a dense, tongue-blackening, intensely flavored wine with a decade or two of evolution ahead of it.

D'ARENBERG 2000 "THE DEAD ARM" SHIRAZ (\$65)

Named after the vine disease *eutypa* that is gradually shutting down this late-19th-century vineyard, one vine cane ("arm") at a

time, this is a full-bodied, vividly spicy wine with layers of texture and flavor just beginning to unfold.

NOON 2001 "ECLIPSE"

(\$50) Nearly port-like, and registering 15.8% alcohol, this luscious Grenache/Shiraz blend has a grace and balance that has to be tasted to be believed.

SHIRVINGTON 2001 CABERNET SAUVIGNON (\$50)

The Bushing King winner for 2003 (see article), this is

a plum-and-cassis-infused wine with California ripeness and a Bordeaux-like aromatic subtlety.

TATACHILLA 2001

GRENACHE SHIRAZ (\$15) This is no shrinking violet, either, at 14.5% alcohol, but it's built to a different, more moderated scale than the big-shouldered wines above. Lively, spicy and blossoming with nose-filling aromas of crushed raspberry, plum and licorice, it is a sensational bargain.



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119 square miles, encompasses a number of smaller winemaking worlds with important differences. The Vale itself is shaped something like a shoehorn, wide at the golden beaches of Gulf St. Vincent and narrow up-country. Though the sea breeze cools the entire region and helps keep the grapes free of mildew, vineyards near the Gulf can sometimes ripen weeks before those eight kilometers away over the inland hills and ridges.

And the dirt...well, there's a lot of different kinds of dirt around here, and don't get a McLaren winemaker onto the subject if you've got other plans for the afternoon. There's the sand: good for elegance and spicy aromatics, of course, but bugger—all in a cool year. You've got your ironstone—great for leather, licorice, aniseed and blueberry flavors in your reds—your glacier-deposited loams and your bloody worthless yellow clay. Most famous of all is the damned-if-you-do, damned-if-you-don't Biscay, a.k.a. the "Sunday Soil," since it can, at least in legend, be too wet to work on a Saturday—binding up like glue—and so dry by Monday it's cracked like the desert floor and hard as concrete. This irritating planting medium, which requires hands-on experience and chronic low blood pressure, produces some of the most gorgeous Shirazes in McLaren Vale, which these days means some of the most exciting Syrah-based wines in the world.

If you're going to get into these McLaren Vale wines in any depth at all—say, two glassfuls—you're going to turn your teeth purple. These are wines with varying degrees of subtlety and (often great) nuance, but the true McLaren Vale red is dense, deep-colored stuff. I was reminded of the inexorable law of dental physics at a party one night at Russell's, the happening nightspot in downtown Willunga. A former blacksmith's shed, Russell's is an intimate, low-ceilinged complex of buildings made of poured concrete and corrugated sheet metal. On this night, the place was packed with McLaren Vale winemakers, nearly every one gone blue-black about the lips, teeth and tongue (I wasn't eager to see my mug in the mirror, either). Inside, owner/im-

esario Russell Jeavons was pulling exotic pizzas (goat curd? kaffir lime?) from the crackling wood-fired oven and dishing out *dukkah*—rhymes with DOK-ah—an addictive dipping mix Jeavons discovered in an Egyptian cookbook. (See “Doing Dukkah.”)

In the crayon-graffiti-doodled arch out back, a venue Jeavons also votes to tango lessons, bottles were passing back and forth. They were, nearly all of them, red: Cabernet, Shiraz (Syrah), Grenache, Merlot or—only in Australia, kids—some combination of the four. McLaren Vale produces respectable white wine too, but it's not the electricity generator. There's not much call for it when wine-makers are showing off their primo bottles to one another, the red beauties they hope will cause their colleagues/ivals to sip and succumb to awe.

As we tried a mellow, graceful Chapel Hill Cabernet Sauvignon here, a juicy, lush Geoff Merrill Shiraz here, the folks at Russell's were hand-slapping the identity of the Bushing King—the winemaker of the year—for the upcoming Bushing Festival, which McLaren Vale's annual harvest celebration. As a judge in the competition had no idea myself, since we tasted all of the hundreds of entered wines blind. But I knew there were strong cases to be made for probably a dozen choices.

My list of personal favorites included Drew Noon, an intense, contemplative man who squeezes a few

thousand bottles of brooding red from his family's ancient vines and sells it out within days of putting up the sign at his little winery. Or maybe Ben Riggs, the innovative winemaker then at Wirra Wirra, or d'Arry Osborn's son Chester, of d'Arenberg, who makes some of the region's most layered, complex wines using laborious, seriously old-fashioned techniques. Most at Russell's seemed to favor the party-hearty hipsters at Tatachilla Winery just to see if they'd do it again: Tatachilla's previous win coincided with a romantic crisis for its winemaker, who then turned his assistant—a comically unfeminine fellow named Mick—into the first drag Bushing Queen.

The day of the Bushing Festival (the name is apparently Elizabethan) dawned fair. In the fields next to McLaren Vale's sleek new wine visitor's center rose a massive white tent that would shelter all 650 guests for the food, awards, speeches and a glass or two. Inside, the tent was hung with winery banners and gigantic charcoal portraits of the area's older-generation luminaries, like Mark Lloyd and d'Arry Osborn. It was all very upscale and handsomely done, but any whiff of snobbery was dispelled, Australian-style. There were, for one thing, the speeches, which were hilarious, scathing and totally unsparing of the dignity of the political personages present, including the Premier (governor) of South Australia.

Came the big moment...envelope, please...and the Bushing King was indeed the charismatic Ben Riggs, who with his attractive blond wife, Annie, actually managed to look a bit regal in the goofy purple robes and crowns. Just in case they might get too swept away by the majesty of it all, however, the crowd rose to serenade them with the “Bushing Wassail.” Sung to the tune of the old graduation air “Gaudeamus Igitur,” it carried the refrain, “Off your arses, raise your glasses!” Candor and a certain understandable self-congratulation were the order of the day in McLaren Vale, where the truth did indeed set them free—or, anyway, unleash them on an unsuspecting world. •

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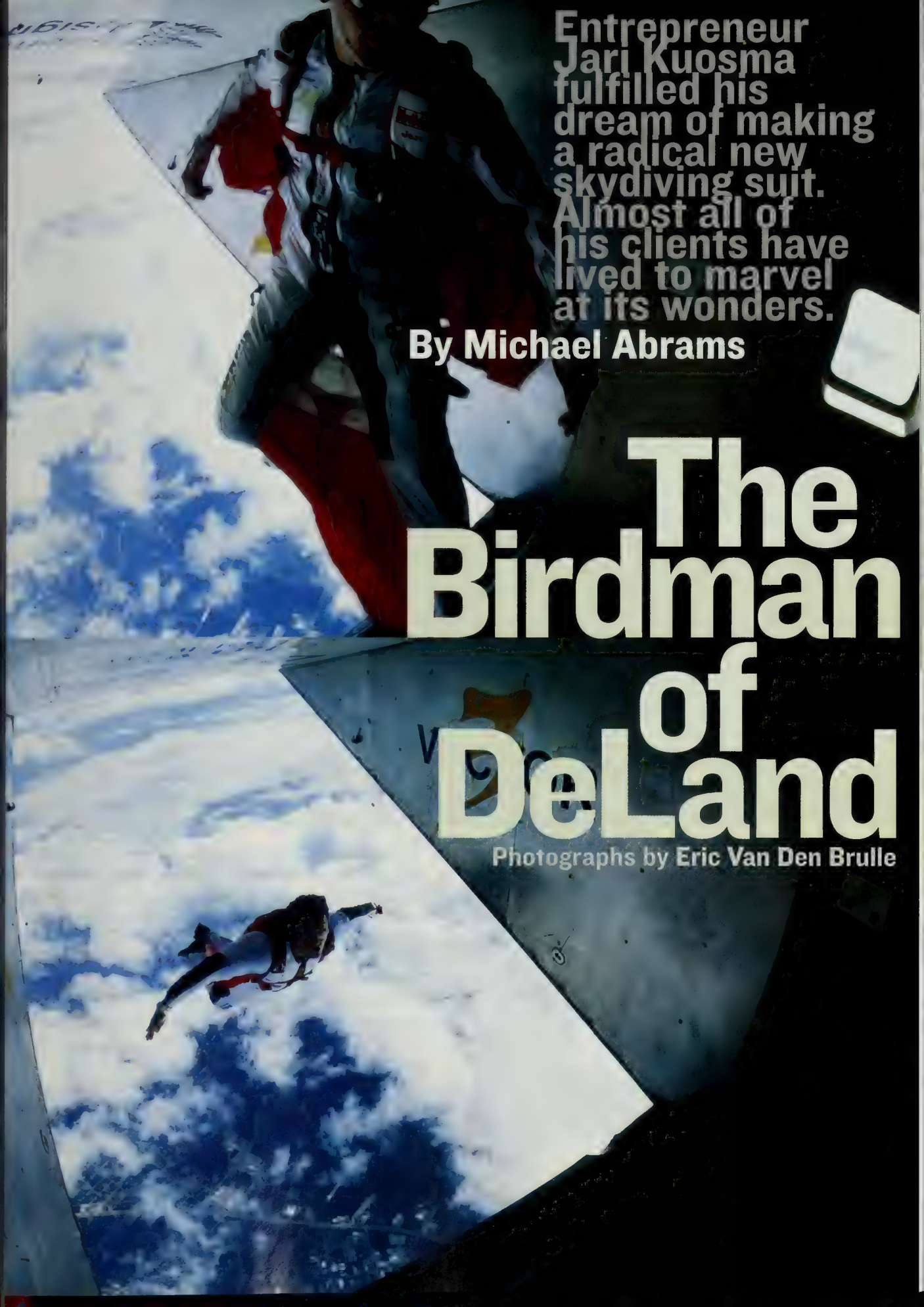
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Doing Dukkah

Russell Jeavons (see article) devised dukkah—rhymes with snook-ah—as a way to “get people playing with the local olive oils.” It is a combination appetizer and sandpile for grownups that has caught on across Australia. Jeavons' exact recipe is undivulged, but you can approximate it by roasting almonds (or hazelnuts), sesame seeds, fennel seeds and coriander seeds, then crushing them together with salt and pepper.

THEN: Pour out a small dish of good olive oil and tear off a hunk of fresh, crusty bread. Dip the bread in the oil, then in the dukkah mix. Snarf and repeat.





Entrepreneur
Jari Kuosma
fulfilled his
dream of making
a radical new
skydiving suit.
Almost all of
his clients have
lived to marvel
at its wonders.

By Michael Abrams

The Birdman of DeLand

Photographs by Eric Van Den Brulle



In the early 1990s, Kuosma began a ten-year spree. His own parachuting club passed rules banning certain

A

s the plane climbs through the sky above DeLand, Florida, we go over the plan one more time. The giant Belgian and I—we're strapped together—will jump first and hurl to earth at 120 miles per hour. After 30 seconds or so, our parachute will open and then we will look directly up to see Jari Kuosma flying in our direction. The flyby is made possible by Kuosma's odd garb: a strange white jumper with red webbing between the legs and triangular "wings" connecting the arms and the torso. "If I hit you on the way down," Kuosma cheerfully adds by way of ending the briefing, "you die."

Kuosma is president and owner of BirdMan Inc., the world's first and largest purveyor of "wingsuits." Anyone who's logged 200 jumps can buy one of these getups for \$618 and experience an entirely new kind of skydiving. According to Kuosma, wingsuiters can slow the downward speed of a free fall from 120 mph to 37 mph and fly horizontally through the clouds. This nearly triples their

time in the air before pulling the rip cord. About 2,000 people have experienced the wingsuit since the company was founded in 1999. Only four have died.

At 13,500 feet the door opens and the earth rushes past us, a blur in the square door frame. I manage to make it to the edge and put myself in position: head up, arms back, thumbs behind my harness. The Belgian tightens the straps that bind us together, grabs my legs with his. The fact that Jari had been stuck outside the country and hasn't used his wingsuit for the past three-and-a-half months worries me for an instant. But it's a bit late to voice any concerns. The Belgian is counting down in my ear: Ready, set...

JARI KUOSMA IS AN EXPAT Euro-sportsman, but you could easily mistake him for some Southern Californian surfer. His two-toned sandy-brown hair has a Tintin flip in the front that points straight towards the heavens. Around his neck he wears an Incan figurine on a black band, and on his right shoulder there's a tattoo of Da Vinci's

1993 he was one of 57 people who broke the Finnish record for the largest free-falling formation. Later he learned a Russian technique for jumping at frighteningly low altitudes and was the first to try it in Finland, eventually leaping out of a plane at a mere 300 feet above the ground (2,500 feet is regarded as the safe minimum altitude). In those days, he also used a dangerously small 135-square-foot chute. Eventually, says Kuosma, his own parachuting club passed rules banning certain kinds of landings just to rein him in.

Between these death-defying acts, Kuosma was pursuing a respectable career on the ground and landed a job in telecommunications. "It took me two weeks to realize that it wasn't for me."

In 1997, Kuosma was BASE jumping (Building Antenna Span Earth) at a 3,700-foot cliff in Arco, Italy, with his friend, jumpsuit manufacturer Robert Pecnik. There he got wind of a Frenchman named Patrick de Gayardon who was said to have devised a way to use webbing between the limbs to allow sky divers to fly. An Internet photo showed De Gayardon streaking across the sky. Kuosma had to try it.

THE FIRST MORE OR LESS CREDIBLE TALE of man aping bird takes place shortly after the first millennium. Al-Djawhari, a brilliant lexicographer and scholar from Turkistan, announced from the top of a mosque that he was about to make history. He did. Wearing two giant wooden wings, he leapt into the air and fell immediately to his death.

Sometime in the 12th century, a Turk decided to jump

borne shenanigans. Eventually, he says, ds of activities just to rein him in.

truvian Man." Instead of a second pair of arms, however, the figure has a set of wings. "When the perfect man mates, he can fly," says Kuosma, explaining the drawing. Kuosma grew up in Helsinki, Finland—he now speaks English," he says—the son of slightly less than adventurous parents. His mother was a secretary; his father ran a U.S. Army surplus store and was also an amateur pilot. As a child Kuosma remembers being in awe of the sky divers he saw at the airport. He took up martial arts in his teens and started jumping off roofs with his pals. After his father died in 1990, Kuosma was set to take over the family business, until lawyers descended upon the estate. "They ended up stealing everything we had: all those nice army clothes, boots and everything. But I don't think I would be here right now if that didn't happen. I thank those lawyers." With nothing else to do, he headed to the old airport and took up skydiving. Thus began a ten-year spree of airborne shenanigans. In

from the top of a tower wearing a voluminous pleated white garment. The story became widely known in the western world thanks to Richard Knolles, a 17th-century historian. "In stead of mounting aloft," he wrote, "this foolish *Icarus* came tumbling downe headlong with such violence, that he brake his necke, his armes and legs, with almost all the bones of his bodie." These words set off a spate of European endeavors at human flight that would last for centuries. When an Austrian tailor named Franz Reichelt stepped off the Eiffel Tower in 1912—wearing something like an overcoat made for a rhinoceros—the era of canopy-free drops from stationary heights came to an end. It was in that same year that a U.S. Army captain named Albert Berry made the first jump from an airplane with a parachute. (Berry lived, Reichelt did not.)

Previous page:

Stepping out at 13,500 feet.

Above: Kuosma on the ground at DeLand, visualizing his next flight.

The parachute and the plane took the high jinks to greater and greater heights. Between 1930 and 1961, something like 75 bird-men tried to fly after hopping from a plane. Something like 72 of them died. The majority were victims of the mortal "Roman candle"—an unopened parachute flapping above them like a flame as they rushed toward the ground.

Most of the early bird-men used a single layer of canvas stretched from hand to foot like a bat's wing. There wasn't much room for adjustment if things went awry. In those days even wing-free sky divers didn't know how to avoid being thrown into a random tumble.

The only one of these fledgling bird-men to have any real horizontal success was a French paratrooper named Léo Valentin. He revolutionized, if not created, the sport of skydiving when he figured out how to maintain a stable position during free fall. But this breakthrough was not

plane, cruised along next to it and then flew back inside. De Gayardón made more than 500 jumps with the wingsuit. But on April 13, 1998, a poorly rigged parachute didn't open. He tried to use his reserve but it failed as well.

IT WAS ONLY A FEW MONTHS AFTER De Gayardón's death that Kuosma and Robert Pecnik saw the Internet photo of him in the wingsuit. They couldn't try De Gayardón's actual invention, but perhaps they could perfect the idea. Pecnik had already had some experience making jumpsuits for sky divers, and Kuosma had devised a plan to manufacture speedy parachutes. "We thought 'Hey, it's easy,'" says Kuosma. "We have wings and we can make suits, so why not put them together?" By the end of the year, Pecnik had made three wingsuits. Kuosma headed to DeLand to try them out.

The wingsuits were based on what they'd seen of De



Where he could, Kuosma gave a seminar of anyone who dared try it. Volunteers

enough for the Frenchman. "I dreamed of the perfect bird I must one day be," he wrote in his book *Bird Man*. On May 13, 1954, he stepped out of a DC-3 at 9,000 feet wearing a set of rigid wooden wings with a rounded front edge. He stopped an initial spiral and found that he was gliding.

In his book, Valentin

claims to have covered at least three miles. "Yes, I had flown, in fact, I was the first man ever to have flown," he wrote in 1955. A year later Valentin tried the stunt again. When he stepped out of the plane the wind grabbed one of his wings and smashed it against the fuselage. He quickly pulled his rip cord, but when the parachute opened it wrapped itself around the broken wing. His reserve did the same.

Valentin's death cooled the talons of many a potential bird-man. But in the early '90s one Patrick de Gayardón invented a wingsuit that was neither flat nor rigid. Its wings had an upper and lower surface with an inlet for air, much like a modern parachute.

De Gayardón was a French aristocrat who'd been skydiving since he was 18. He'd invented sky-surfing, had jumped from 41,700 feet without using oxygen and had more than 11,000 jumps to his name. He was a god to sky divers everywhere, an absolute legend, and he flew his wingsuit like no bird-man could have dreamed. His most spectacular stunt may have been when he leapt out of a

Gayardón's getup and their suits were essentially the same design and proportions. But neither Pecnik or Kuosma was an engineer. When the pair went to test their wings for the first time they gave themselves a 50-percent chance of surviving. "It was just such a big jump into the unknown," says Kuosma. "We were doing something that we knew some people had done before...but they were all dead."

Kuosma and his partner did not die. In fact, everything went as planned, except for one thing. "I could never have expected it to be so mind-blowing, so beautiful, so absolutely addicting. I came down and I was absolutely high." Armed with a business plan and a little money, they set up shop in Slovenia and made the first 80 wingsuits. In June of 1999 they packed the suits into a car and headed to Austria. (They were down to their last Finnish mark and had to smuggle the wingsuits across the border to avoid paying customs.) From there they set out to visit every drop zone they could find. Some of the airfields wouldn't allow Kuosma even to demonstrate his suit; the head of England's largest drop zone told them they would have to leave if they so much as mentioned the word "wingsuit." Where he could, Kuosma gave a seminar, flew his suit and then offered to pay for the flight of anyone daring enough to try it. Volunteers returned to earth converts, and word began to spread.

The experience, they said, was wholly different from an ordinary skydive. This is in part because the "wings" of the BirdMan suit fill with air as soon as a sky flyer spreads his limbs (not something he should ordinarily do right away or he risks hitting the tail of the plane). They're made of "ripstop nylon," a fabric with "zero porosity," so the wings remain rigid in flight. The actual shape of the wing

made by the arms and shoulders of person in the suit, and it takes a flights to find the ideal position. staway cables enable the flier's s to be freed in an instant, which ces the danger.)

Watching Kuosma fly is breathtaking. At first he drops straight down any free faller. But in a matter of onds the wings catch the air and fall curves forward in a graceful oid. If there's a plump cumulus in at Kuosma banks towards it, glisses around its edge or plunges right ough. He can fly on his back, make re-eights or soar along a highway, running the cars below. "There are



By his suit and then offered to pay for the flight Returned to earth converts and word began to spread.

speeding tickets up there," says Kuosma.

Three of the four deaths attributed to the BirdMan suit occurred on jumps from stationary heights like cliffs or edges. It's hard to know to what degree the wingsuit can be implicated. The chief thrill in BASE jumping, after all, is the threat of death. "Officially we don't even recommend BASE jumping," says Kuosma. "We can't really recommend Russian roulette to anybody. Although it's fun." The first death occurred when an inexperienced sky diver tried to jump with a friend's wingsuit. No one knows exactly what happened, but he probably went into a spiral and hit the ground wrapped in his parachute.

The deaths give Kuosma pause—but a short one. "Accidents do happen a lot," he acknowledges. "It's always very hard, but you just start getting used to it. It's something you accept as the price for what you are doing."

AT A YAWNING DOOR, OPENING INTO SPACE, like the very jaws of hell," wrote Valentin of his thoughts the plane before a jump. "We're not birds, look at us, we're only men! So quick—let's get back to earth. To the ground—at once!"

My thoughts exactly. Then the Belgian launches us into the air. We flip out the back of the plane and suddenly the world is gone. I am out there. A pinprick of consciousness is reaching through the atmosphere. The sun watches from the edge of a 360-degree horizon. The wind blasts against my eardrums and they pop and pop and pop. I eat clouds. I swim with pure joy. The planet spreads out below me, different...and then a simple *foomp*.

The world changes from sensory overload to total peace, absolute silence. We're hovering, seemingly motionless. The

Belgian taps me on the shoulder and points up to the left. I look up in time to see Kuosma pop out of a bank of puffy clouds, his canopy already open. He spirals around us, grinning. It's like meeting a long-lost friend in a dream. Before long the drop zone rises to our feet and we've landed.

"I'm in love again," says Kuosma.

His eyes are wide and his face is flushed. He's overjoyed, despite the fact that he had to abandon our plan. "I was like a kid again. My heart was pounding in the plane." He had followed us till we went through the cloud. Rather than risk a collision, he changed course and found us after he'd opened his canopy. But it hardly matters. I'm just glad I'm no longer a whuffo (that's skydiving slang for a virgin of the air, and comes from remarks like "whuffo you wanna jump outta perfectly good plane?").

Soon the ale appears. War stories and life philosophies start spilling out as the sun goes down. "You feel smaller up there," says Kuosma. "But much bigger. Because you know how small you feel and the knowledge makes you feel bigger." More beer, please. A Yorkshireman named Steve Ashman is at the table with us. He too has had his first wingsuit flight in months and he's positively glowing. "I went through my first cloud today," he says with a grand, goofy grin. Steve learned to skydive just to fly the wingsuit. And once he'd flown, he tells us, he never looked at a bird or the sky the same way again. He pauses before quoting Da Vinci. "Once you have tasted flight, you will forever walk the earth with your eyes turned skyward, for there you have been and there you will always long to return." •

Left to right: Kuosma shows off his winged "Vitruvian Man," then enjoys a light moment during the very serious process of packing his 'chute.

Left to right: the author's first love shack on the high seas, his father's *Aries*; Errol Flynn, aboard the *Zaca*, scopes out the scene; Gianni Agnelli, wife Marella and friends on the prowl off the Italian coast



Yachts of Luck

A renowned playboy looks forward to his new



ketch and reflects on a charmed life aboard boats past. By Taki



When my first wife suddenly decided that life would be more fun without me, I reacted as most Greeks would. I threatened to kill her and any man who came near her. ● Like most Greeks, however, I did nothing of the sort. Nevertheless, I loomed for weeks, boring everyone with stories about the perfidious nature of the weaker sex and threatening suicide. That's when my father came to the rescue. ● "Your mother is worried about you," he told me over the telephone from Greece. "I know you're faking, but do go and buy yourself a boat. And charge it to me." ● This was 1968. My only regret after accepting my father's generous offer was that I had not thought of threatening suicide before. I had been trying to get a boat of my own since the late '50s, when I first sailed on my dad's magnificent *Aries*, a 1953-built 106-foot Bremer & Nicholson's ketch, now a classic. ● After I had my new boat, my wife hinted that perhaps we could find a *modus vivendi* after all. For once I acted smart. Who needs a wife when he has a boat? Or, as my old man always said, He who has a yacht has a different wife every night. ● Which brings me to the point I wish to make about boats. Some use them to sail, others to show off their wealth, others still in order to move from one summer resort to another in style. Many reasons for owning a boat can be encapsulated in one word: women. Mind you, as P.J. O'Rourke once put it to me, "Why go through all the trouble of building a boat? Why don't you just show them the check that went to build it?" He has a point. The only trouble is I like sweet young things, and do not care for the kind of girl who would be impressed by the check and not the boat. But before I go on about how I came to be constructing a new yacht, a brief flashback.

Below: Taki, Bardot and friends in Saint-Tropez. Right: The second *Bushido*



My love affair with the sea and things that float on it started long ago. I first went to the French Riviera in 1952, as a 15-year-old, with my parents. The war had seen most luxury boats requisitioned and ruined. In the aftermath, yachts were not priorities in the minds of those who could afford them.

The only boat doing the rounds back in 1952 was *Zaca*, the stately schooner owned by Errol Flynn. Lunching in the Hotel du Cap, in Antibes, I watched while the great Flynn would drop anchor, unload one bevy of beauties and take on another. An envious Greek friend of my father's insisted that it was the boat, not the man, that made it look so easy. As an impressionable 15-year-old, I fell for the analysis.

In 1957, I returned as a free man (school was out for good) and, as luck would have it, I was befriended by Gianni Agnelli, the recently departed Fiat chairman. Gianni was Dick Diver and Tommy Barban combined, a terrific-looking man with charm and daring, and a great love for sailing boats and women. I was hooked. Every day during the summer months we would go on his beautiful *Agneta*, an 82-foot ketch, all teak with rust-colored sails, and hunt for women up and down the coast.

By then my father had bought the *Aries*, and after the Riviera season I would go to Greece, board her and sail around the Aegean, always keeping my eyes open for opportunity. Even if I say so myself, it was easy as pie. An invita-

tion to go sailing aboard a beautiful boat is not a hard sell when one is baking on a rocky beach with greasy locals trying to pick you up ("Me Grik lover, you like?"). English and Scandinavian girls were especially eager to go yachting. My first marriage was on the rocks before we even had a chance to raise anchor. Cristina hated boats, was always sick on them and didn't think much of my Captain Bligh act.

While on a newspaper assignment in Cyprus in 1968, I interviewed Tassos Papadopoulos, now the elected president of the island. Back then Tassos was a left-wing firebrand who had fought against the British and the Turks during the Cypriot struggle for independence. One night, after many drinks, he suggested I go to Sweden, where a beautiful cutter-rigged sailboat was for sale. (Leave it to a lefty to know about expensive yachts.)

I dropped everything and flew to Stockholm. And there she was. A Swedish-built 70-footer with a flush deck, mahogany and teak. She was the Ava Gardner of sailing boats: difficult, exotic, but with looks that drove sailors wild. I named her *Bushido*, after the samurai code of honor. With a crew of four, I invited William and Pat Buckley, Alistair Horne, the British historian, his wife and a couple of karate buddies to join me for a maiden cruise around the Med.

Just about that time I renewed a friendship with a pre-war Austrian princess by the name of Alexandra Schoenbur-



trienstein, a girl with whom I had struck out time and again, but whose one great weakness—I discovered—was classic old boats. I was in like Flynn in no time. Lest you think ill of it, I should add that she is my present wife and mother of my two children.

My father had also bought *Nefertiti*, the brave runner-up in the 1962 America's Cup trials, and was racing her very successfully. After ten years on *Bushido* and the good life, I decided it was time to go to work—for *National Review* magazine. *Bushido* was sold. I used *Nefertiti* when I came home from the wars I covered, and life continued to be good. In 1989 my father died of a heart attack and I inherited my share—and definitely my last—gin palace. Daddy had built a 60-foot power yacht that had three 1,500-horsepower engines and cruised at 30 knots. What I've never been able to figure out is: Why do old men build speedy boats when the pictures on the wall? You'd think the slower the boat, the longer the life.

I renamed the stinkpot *Bushido* and proceeded to race about like a wild man, literally burning money, polluting nature and acting as if I was suffering from Parkinson's by the vibration induced by the combined 4,500 horsepower. Mercifully, the boat was blown up while at anchor in Piraeus sometime in 1994. (Some Piraeus heavies thought they could cash in by taking me down. They didn't, but that's another story.)

Which brings me to the present, and the dream boat I'm building as I write. Having spent close to ten years without a boat, my life had changed. My two children had gone away to school, Alexandra and I were happy sitting around watching the cows in Switzerland and I had begun to accept the inevitable, namely that I would never see 60 again. Winters and summers were spent in Gstaad, where one sat with other 60-year-olds and discussed the encroaching proletarian brutalism; autumn and spring in cities like New York and London, again discussing with other 60-year-olds the encroaching proletarian brutalism. Mind you, at times I would wax nostalgic about the good old days, and how a boat kept one on one's toes, rather than waiting for Godot.

Two summers ago, having had enough of the good-but-quiet life, I chartered an old classic and took some young people to Saint-Tropez for a two-week cruise. Things had certainly changed. The wonderful old harbor was lined with humongous, multimillion-dollar gin palaces that looked like refrigerators on steroids. They were owned by people with enormous bellies, horrible manners and very rowdy, badly behaved children. And yet, as we pulled into the harbor, some pretty girls forgot all about the refrigerators and gave

To all the boats I've loved before, clockwise from far left: the *Mariette*; the author and his latter-day Red Pack crew; the second Bushido; the *Shamrock*



my classic sailer admiring looks. That's when it came to me. If you can't beat them—and I certainly couldn't match the bank accounts of these barbarians—why not outclass them with style and tradition? After all, as Gianni Agnelli always said, you can tell what a man is like only by his boat and his woman. The kind of lady I like is more likely to go for the classic look rather than vulgar excess. It was time to go and see my old friend George Nicholson, whose family has been building boats since the 18th century.

"WHAT YOU NEED IS TO MEET PAOLO SCANU," SAID George nonchalantly. Nicholson is my neighbor in Gstaad and knows more about boats than Errol Flynn knew about tarts. I thought back to August 2001. Gianni Agnelli had invited me to the America's Cup Jubilee, commemorating the prized trophy's 150th year. It was held in Cowes, where the U.S. schooner *America* beat seven British schooners and eight cutters racing around the Isle of Wight.

The gathering I attended was the biggest and most remarkable collection of yachts imaginable. All the great oldies were there, starting with the J-class boats, *Endeavour*, *Velsheda*, *Shamrock V*, *Cambria*, the glorious 12s, the three-masted schooner *Adix*, the magnificent classics *Thendara*, *Mariette*, *Tuiga*, all the way to the modern speedsters like *Stealth* (Gianni's boat and the one I crewed on), *Extra-Beat*

and *Mari-Cha III*. You name it, it was there. Ditto even great name in ocean racing. *Stealth* won first across the line and was also overall winner, but the real victory belonged to the organizers. Never have I seen such a splendid regatta, full of tradition, class and elegance. My mind was made up. I flew to Italy and met Paolo Scanu.

"WHAT I WANT IS A HEAD-TURNER," I TOLD HIM. That was my only demand. Scanu knew what I meant. He had learned his trade working at Camper & Nicholsons while his father was refitting *Shamrock*. In no time he came up with his drawings. I approved in a jiffy.

The name of the new boat will be my old one, *Bushido*. She's being built of steel, with a fairly heavy displacement ketch-rigged with a large sail area, but very traditional in appearance. Above the waterline she will look like a 1930s yacht, but below the hull shape is modern, with a separate rudder and other improvements.

This is, as Donald Rumsfeld would say of the "Mother of All Bombs," "not small." She will be 35 meters, roughly 115 feet, overall on deck, with the large overhangs that recall the older era. The size has been chosen to let us profit from all the nicest places, where larger yachts sometimes cannot go. The accommodation is stunning. Paolo, based on a design concept he originally worked up with George Nicholson



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found more space below for four huge double cabins I ever thought possible. (The golden oldies were a very tight fit below.) All cabins have a bathroom en suite, and the new quarters are good for four permanent crew plus two extras for the season.

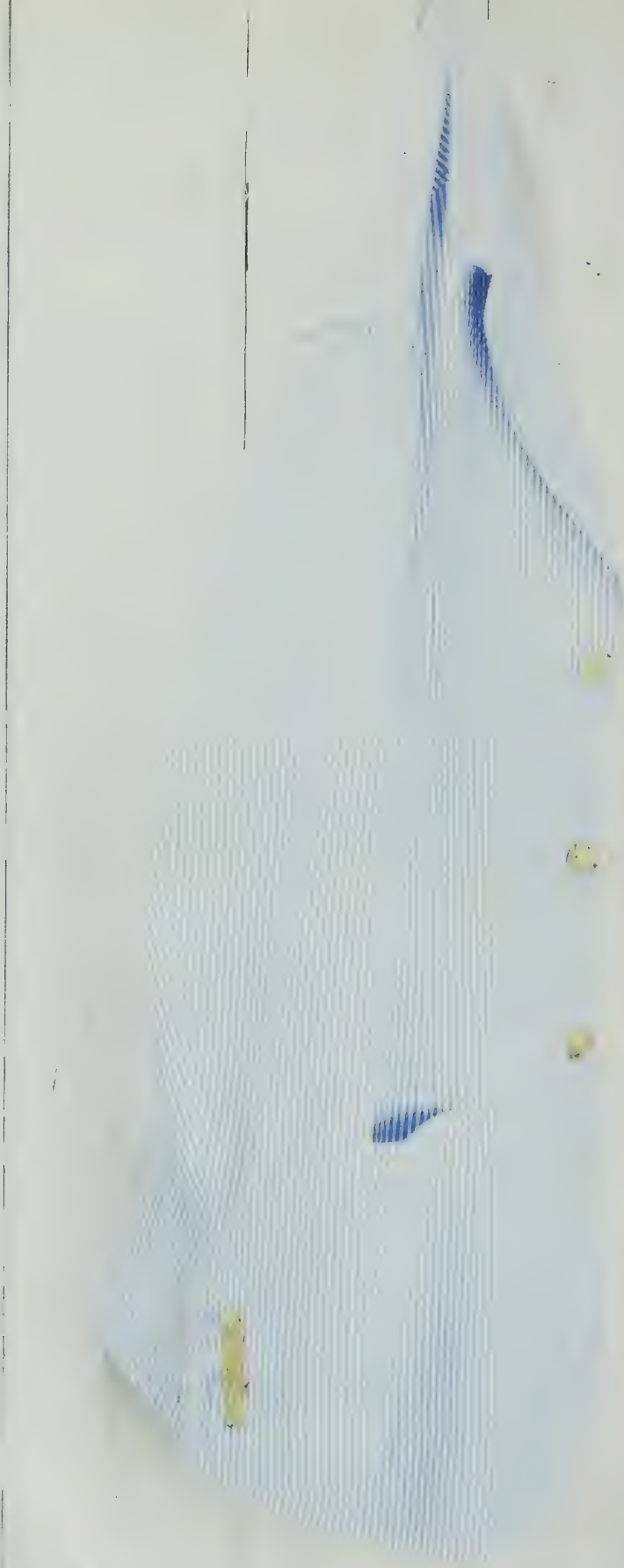
More tricks have been used on the deck level. This is a comfortable cruising yacht. My family, friends and I cherish our privacy. On the sailing yachts my family owned and those I have chartered over the years, it is exceedingly difficult to find a spot where one can be private and not overruled by a crewman, no matter how discreet the crew try to be. So we will have two steering positions. One in the traditional position aft of the cockpit area. The other, instead of being just inside the deck saloon in a guest area, is way forward of the saloon in a separate wheelhouse, with first-class visibility. This means we can enjoy the huge cockpit and aft bathing area in complete privacy if we so desire. (All that is now missing are the girls.) We can have our meals underway without the man on the wheel observing what we eat or drink, or even overhearing our conversation. (I have been known to express alarming right-wing opinions.) The cockpit itself is huge, inspired by Count Theo Rossi's *Tritona*. Now there was a man who knew how to live.

Mechanically, the yacht is conventional: a Caterpillar engine that makes an easy ten knots under cruising, Northern

Lights generators, water-makers, air-conditioning. The yacht is being built to Lloyd's Classification and to the Maritime and Coastguard Agency (MCA) requirements. After putting out bids, Paolo Scanu chose a Turkish yard in Bodrum. Turkey might be my country's traditional enemy, but their prices were friendly as hell, as is their craftsmanship.

So, there you have her. I will be launching her sometime in the fall of this year, and hope to sail her to America soon. Her base will be at Saint-Tropez—where else?—and a lifelong dream will have been fulfilled.

It's said that owning a boat is the art of going nowhere, at great expense and major inconvenience. Perhaps. But it's also owning a thing of beauty—a Degas, a Renoir. She's like a mistress, no doubt about it: expensive and troublesome. In winter she's like a lover you've just made love to one time too often; in summer, a woman you've been pining for all winter long. She needs constant care, and the moment she's ignored she turns ugly and rotten. But she's the ultimate muse, cutting silently through the waves. I only hope I live long enough to enjoy her for a season or two, and to hell if I don't find any girls because of her. My son will inherit her and make up for it. •



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When your eight-year-old daughter wants you to take her to a dude ranch, all a Dad can say is, "Yes, ma'am." By Andrew Ferguson

Horse Whupped

THE BOND BETWEEN HORSES AND GIRLS IS A FORCE OF NATURE—AS mysterious and inexorable as the power that sustains the stars in their courses. It rivals, indeed, the bond that ties father to daughter. The fullness of the mystery struck me on the hottest day of the year, when I went with Emily, who is eight, to the stables in a nearby suburb where she had recently begun weekly riding lessons. • The lessons are a kind of compromise. Emily had wanted us to buy a dog; and when I explained that my allergies wouldn't allow us to have a dog in the house, she developed a counteroffer: She would forgo the dog if we bought her a horse, which she could keep in our garage in summer and basement in winter, and ride through our suburban neighborhood year-round. She settled for riding lessons. • On this steamy afternoon, I visited the stables for the first time. Emily wanted to introduce me to Lady. We parked the car in a field of mud and climbed a dirt-caked fence to reach another field of mud, beyond which lay a tumbledown barn spattered in mud. Around the back was Lady's stall. • "Lady!" my daughter called, and the animal stopped chewing long enough to swing its massive head towards us and blink its dim, mucilaginous eyes. • Emily climbed the gate. Her hair, freshly shampooed, was done up in braids. The little purple bows matched the stitching on her blouse. • The stink of manure rose like steam. Flies buzzed around us in clouds. Lady was huge. She radiated damp heat, as if here, in this clapboard stall, we had at last found the source of all the world's humidity. The horse's tail swished the flies, shooting flakes of muck here and there, and as my daughter pressed her tiny face against the tumid neck, Lady let gush a geyser of urine from her backside. It splattered against my daughter's boots as they sank in a cake of dung. • "Oh, Daddy," she said, "isn't she the most beautiful thing in the world?"

Illustrations by Seth

THAT NIGHT, MY WIFE SAID: "IT WOULDN'T BE SUCH a mystery, probably, if you got to know horses the way Emily does." She suggested we spend a week at a dude ranch, on horses. She was serious.

I had other plans for the summer—our local baseball club, the Orioles, was locked in a tight race for sixth place in its division, and there was some mulching I'd hoped to get done, and I hated to think what would happen to the lawn service if I wasn't there to bitch about it—but by the time early August came around, my daughter and I, along with a dozen other guests, were at the Triple J Ranch, in a remote corner of the remote state of Montana, on horses.

One is always on horses at the Triple J. It was the most horse-intensive dude ranch we could find. Others might specialize in cowboy-singing or fly-fishing, hiking or Indian tracking or bird-watching, but at the Triple J the animals are the center of activity. Which was what we required, after all, if I was to share in my daughter's horse fascination. I had no real sense of what I was getting myself into. I had been on a

"He's huge, Dad," Emily said, delighted.

"Yes," I said. "He is."

The moment distilled the difference between Emily's view of horses and my own. When my daughter thinks of horses she thinks: Annie Oakley, Misty of Chincoteague, My Friend Flicka. When I think of horses, I think Christopher Reeve

My horse's name was Taylor. I mounted him from a wooden platform the ranch hands had thoughtfully provided for the use of a toddler and an elderly guest and me. Emily, for her part, threw her leg over her horse, Paiute, with a brief boost from a wrangler, and steered the animal effortlessly around the corral. We spent much of the morning there so the wranglers could teach us the rudiments of horsemanship. I had the vertiginous sense of being up very high. Fortunately, Taylor proved mountainous not only in height but in locomotion, too; he was in no more of a hurry than I was to go anywhere, at any speed. By morning's end I felt almost comfortable atop my steed; I even began toying with the idea of using words like "steed." After a couple of hours we dismounted and I held my daughter's hand as we headed back to the lodge for lunch.

The pain began then. No one warned me about the pain.

As part of my ongoing campaign to resolve the horse mystery, I was asking Emily, "If you had to pick, what is the one single thing you like best about horses?" when my patella gave out. You don't know what a patella is and neither did



You don't know what a patella is and neither did I, but I have since learned its name from the copy of *Gray's Anatomy* I bought the minute I got home.

horse a few times before, in the late 1970s, during a brief romance with an accomplished rider from Arizona, who occasionally took me out for desert rides. Oddly, though, try as I did when Emily asked, I couldn't remember much of anything about them.

And on our first morning at the Triple J, as our horses were led from the barn to the corral, I suddenly remembered why I couldn't remember: They were experiences of such unremitting terror and humiliation that I had thrust them deep into the folds of my subconscious. In an instant they came back to me with granular precision. You don't need to know the details, but several of them serve to explain why, when my horse was introduced to me, I had a strong temptation to turn and run.

I, but I have since learned its name from the copy of *Gray's Anatomy* I bought the minute I got home. It is the triangular plate that covers the knee, and the screeching pain that emanated from it was soon drowned out by trombonical blasts from the intervertebral fibrocartilages running between my thoracic and coccygeal vertebrae and by low timpani rumbles that rolled up from the ischium of my pelvic girdle around where it extends down from the acetabulum into the obturator foramen.

From this moment on, my body was a symphony of pain. Schoenberg not Haydn, reinforced by each hour I spent on horseback. I am not a man given to complaint. "Soreness," as it was called, is common to the beginning rider, I know, and every newcomer at the ranch experienced it in varying degrees of intensity. But the truth is that at times the steady pain darkened my mood, and dimmed my appreciation for

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the pleasures offered by the Triple J, which, objectively speaking, are indeed grand. The ranch lies deep in the wilderness near the Continental Divide, cradled beneath Mt. Mortimer at the mouth of Mortimer Gulch, nearly 25 miles from the nearest town (Augusta, Montana, pop. 284). Each family of guests is lodged in a log cabin among stands of poplar and aspen. Climbing out of bed in the morning, you are greeted with the sweet smell of pines through the rising mist, the thrum of songbirds, the early sun scanning the towering peaks and the throbbing of the acetabulum.

Life at the Triple J was a series of revelations. I didn't understand about horse droppings, for one thing. They're everywhere on a ranch, and they stay where they're dropped, unnoticed and unremarked upon, until over time they are tapped down and decompose underfoot. I didn't realize that, on a ranch, this is what the ground is. Just as the beach is really the remnant of sea shells that the waves of millennia have pounded into sand, so the earth itself, where horses roam, is really just poop in the final stages of disintegration. It's what you walk on, it's the fine dust that clings to your boots and trousers, it's the stuff that lodges under your fingernails. The silty flakes I would comb from my hair each night—poop. I also hadn't realized that the number of wise-cracks you can make about manure is not infinite, and after the second day ("Excuse me, the horse had an accident over here—somebody want to come and clean this up?" "Whoa! I've been in management training seminars where there wasn't this much horseshit!" and so on), I began to run dry.

My depleted supply of jokes reflected my sagging spirits, even as Emily's spirits soared in horse communion. Soon she was spending rather more time with Paiute than with her father. Each morning after a thick breakfast—the food at Triple J, I should note, is distinguished more by its quantity than its quality, with an emphasis on the heavy victuals of the farm kitchen: flapjacks and biscuits, fried chicken and pot roast, iceberg-lettuce salads topped with French dressing and mandarin oranges, and, of course, potatoes in every permutation—we limped to the corral to saddle our horses, and Emily was already there, grooming Paiute and whispering confidences into his ear. I would watch from a distance.

Our daily rides into the wilderness grew longer as the week wore on. We crested summits from which endless valleys dipped down and away, scattered with late-summer bursts of Indian paintbrush and mountain bluebells. We stopped for sack lunches alongside sun-dappled brooks, while the horses lazed and munched in the breeze. Emily would always be among them. Taylor and I, meanwhile, had reached a plateau in our relationship. He was noncommunicative and I, for my part, had little to say to him. There were some moments, as

we thumped heavily up a narrow trail through the woods when I had reason to suspect he was purposely knocking knees against the tree trunks. These knocks hurt very much, especially in the region Gray identifies as the longitudinal striæ under the quadriceps femoris tendon, but they were only a marginal addition to the general pain, and besides, by the time my pain had been overwhelmed by my vertigo.

The Triple J is 5,500 feet above sea level. Our rides took us much higher, along narrow trails chiseled from sheer hill sides. On solid ground, as I've mentioned, Taylor already gave his rider a sense of impressive altitude; and this served when Taylor lumbered and swayed his weighty body across the side of a mountain, transcended the impressive into the realm of the terrifying. During our last trip of the week, at a mountain lake, we traveled through a high wind. On one side of the trail the hillside rose at a steep angle; on the other it dropped away with equally dramatic effect. I had heard of horses spooked by wind. I had heard of horses spooked by hats, much like the one I was wearing, when the wind blew them off. I recalled one desert ride from the late 1970s, a sudden gust causing the horse to rear up, causing the rider to slip, causing...

I had had enough. At camp that evening, as the grown-ups sat around the fire while the children skipped rocks in the lake, a wrangler suggested I could ride the supply boat back the next day. One of the other guests, the father of two boys, announced that I was unnecessarily skittish.

"Look down the side of those mountains," he said. "You ever see horse bones at the bottom?"

"No."

"That's 'cause horses don't fall off the side of mountains, my friend."

"To tell you the truth," I said, "it's not the horse I'm worried about. The horse might not fall off the mountain. But I might fall off the horse. In fact," I went on, leaning toward him, "to tell you the truth, *the hell with the horse.*"

It was at this moment that Emily chose to appear.

I don't know whether she heard me or not, but she had saved up the right thing to say for just such an occasion.

"Daddy," she said, "remember you asked me, if I had my pick, what the best thing about horses is?"

"Yes."

"The best thing about horses is being able to ride them with my Dad."

I'll never solve the mystery of girls and horses, of course, but I do know that it is preposterous for a father to feel jealous of an animal. No horse, not Paiute, not Lady, could take the place I hold in my daughter's world. For starters, neither one could make tuition at her private school. Even noble Paiute would look absurd walking her down the aisle when the day comes—the day that I feel closing in already—to give her away for the rest of her life.

Emily gave me a kiss on the cheek and ran up to where the horses grazed. With the deepest satisfaction I tipped my head down on my brow, cowboy-like, and leaned back, placing my hands squarely in a horse pie. •

ON THE ROAD The cost of a six-day stay is \$1,239 per adult, double occupancy, and \$875 for children age 6 to 12. All meals, lodging, activities and airport transfers are included. The season runs from June to September, and no minimum riding experience is required. Triple J Ranch, P.O. Box 310, Augusta, MT 59410; (406) 562-3653, fax (406) 562-3836; www.triplejranch.com.

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A Standing Ovation

The long-anticipated Segway is finally hitting the streets. After taking a test ride, all we can say is, *Man, is this cool or what?*

By Richard Nalley

et used to it: Your kids are going to want one—and the urge might sneak up on you, too. The Segway Human Transporter may or may not change the face of urban transportation, save the environment and bring back Elvis, but it is a pissar to ride. Once the most-hyped secret invention since the A-bomb, code-named It and Ginger, the Segway sprang from the almost impossibly fertile mind of medical technology innovator Dean Kamen, who, it's worth noting, didn't do the hyping (himself). What it is, is a 16- by 14-inch aluminum platform with two 14-inch wheels on either side, and a scooter-style handlebar on a stem. What it does is so soothing it's actually spooky, bringing to mind Arthur C. Clarke's dictum that "any sufficiently advanced technology is indistinguishable from magic."

There are no brakes on this austere vehicle, no accelerator, no steering wheel. You step aboard and it "oscillates" for a few seconds, getting the feel of you, and then it's fully cruise-able, at 6 mph in "learning mode," and 12.5 mph flat-out. Lean forward, it goes forward, lean back, it stops (or goes in reverse if you lean back far enough). It is next to impossible to fall off. The Segway simply won't let you—unless you crash into the stoop of a brownstone town house, as I did during a brief spin around Manhattan's Greenwich Village.

The only handlebar control is a throttlelike device that turns the Segway left or right; I, uh, turned it left. Meant to go right. I had been marveling at the company's confidence in letting me ride this hoss without signing a legal waiver or donning any protective gear. Hitting that stoop did bring the Segway PR rep hoofing it down the block at a pretty good clip, though.

Man, machine and masonry were all unscathed.

The company's confidence in the machine

is built in. Despite the fact that it weighs only a little more than 80 pounds and folds up to fit into an average car trunk, the Segway carts around an impressive amount of redundant technology. Its two high-speed electric motors operate as one but can act independently (and incidentally, by using reverse torque instead of friction for braking, the motors convert the energy of your motion to help replenish the battery). You stay upright despite all clumsiness thanks to its two tilt sensors and five gyroscopes, oriented so that at least two of the gyroscopes sense and correct for any angular motion.

Further proof that the Segway is a vehicle designed by geniuses to be ridden by idiots is that a company called Keolis is installing kiosks in Paris where any inexperienced Pierre off the street can rent a Segway with the swipe of a card and whirl over to the next Metro station. (It conks out if not returned after a certain distance, and a locator device will allow Keolis to track it down.) The Segway is also in use or under study by several big-city police departments, the National Park Service and various companies with vast warehouse spaces to navigate. In the golden age of SUVs, it may seem important to know that the Segway is "all-terrain." (The PR rep casually told us the U.S. military "probably wouldn't confirm" the Segway's use in Iraq, but she assured us, "It works great in sand.")

So what's on the horizon for these techno-scooters, yours for \$4,950 exclusively at www.amazon.com? Ideas around our office ranged from *Ben-Hur*-like chariot races with blade-studded wheels to Segway polo to, more mundanely, Segway lawn mowing. If its

future success can be predicted from its present appeal, it should be one smooth ride. •



MIXED MEDIA

DiCaprio's Stylish Rogue | Willie Nelson Redux | Gergiev's Shostakovich | Roy Blount's Robert E. Lee | Hellmuth's Poker Play



games



WORLD SERIES BASEBALL 2K3 (Xbox, PS2), \$50;
ALL-STAR BASEBALL 2004, (Xbox, PS2, GC), \$50;
MVP BASEBALL 2003 (PC, Xbox, PS2), \$50;
INSIDE PITCH 2003 (Xbox), \$50

THIS YEAR THERE ARE NO LESS THAN TEN NEW VIDEO games dedicated to the Boys of Summer. Of the lot, the most visually convincing is Sega Sports' *World Series Baseball 2K3*, which comes disturbingly close to re-creating the experience of watching a real game on the tube. Only difference is that *you're* calling the shots. Sega's players turn double plays and make diving catches with surprising realism and fluidity. Like the other games featured here, *2K3* includes every player on every major league team and often re-creates their body language down to individual batting stances and warm-up rou-

tines. It also features every major league stadium, including a few that aren't around anymore, like the Polo Grounds and the Pirates' old haunt, Forbes Field. Acclaim's *All-Star Baseball 2004* has the Phillies' Baker Bowl and Crosley Field, where the Chicago Black Sox series took place. To run the bases of those ghost parks is a roster of all-time greats from the majors and the Negro leagues including Babe Ruth, Ted Williams, Satchel Paige and Buck O'Neil.

The two games most immediately gratifying to play, however, are EA Sports' *MVP Baseball 2003* and Microsoft's new Xbox title, *Inside Pitch 2003*. *MVP* has the simplest, most intuitive controls and a unique little screen-in-a-screen feature that allows you to see your base runners at all times. Double steals and suicide squeezes were never so much fun. The brand-new *Inside Pitch*, which we saw in a late stage of development, looks to have

best elements of all the games—except for the pitching controls, which are a bit less challenging than the others. Otherwise, it has beautiful graphics and smooth, acrobatic players. But who do you compete against? The computer is no fun—

rarely makes mistakes, never talks back and shows little creativity on the field. While all of these games can be played by two or more people on the same machine, only *Inside Pitch* and the PC version of *MVP* have online capabilities. This is where the real fun is. You can take on your brother in Cleveland, your friend in Sydney or find a game with a stranger anywhere. With

the Xbox "Live" setup, you can slip on a headset and heckle your *Inside Pitch* opponent over the Net. Why reach out and touch someone when you can shell them at the ballpark instead?

—THOMAS JACKSON

MACROMEDIA CONTRIBUTE; \$99



YOUR WEBSITE IS OUT OF DATE. YOU CAN'T FRESHEN IT UP BECAUSE YOU DON'T know HTML, and the teenager who usually does it for you has fallen off the grid again. What the #**%@ are you supposed to do? Try Macromedia Contribute. Once a site is designed, this app allows you to go in and update its content with an "intuitive user interface." In other words, it's as easy as using Word or Excel. Finally.



CATCH ME IF YOU CAN; DreamWorks; \$20

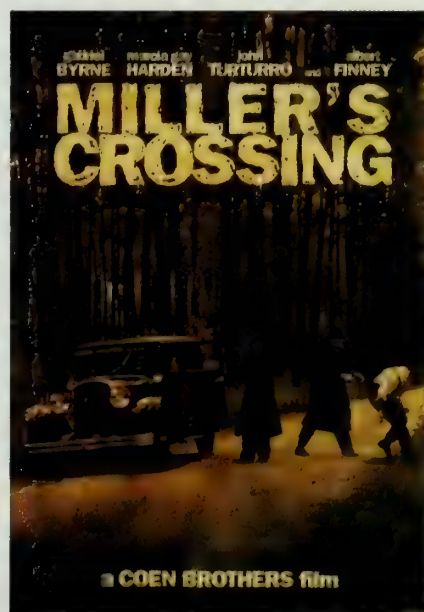


SIXTEEN-YEAR-OLD FRANK W. ABAGNALE, JR., runs away from a broken home and goes on a spectacularly stylish, five-year crime-spree, passing millions of dollars in phony checks while impersonating an airline pilot, a doctor and a lawyer. This is the kind of role Leonardo DiCaprio is made for, and he kills in it. Tom Hanks is excellent as his pursuer, FBI agent Carl Hanratty, and Christopher Walken is even better as his weak but loving dad. The special features include an entertaining "making of" and a documentary on the real Frank Abagnale, whose escapades as a teenager are the basis of the script. —TJ

MILLER'S CROSSING and BARTON FINK; Fox; \$20 each

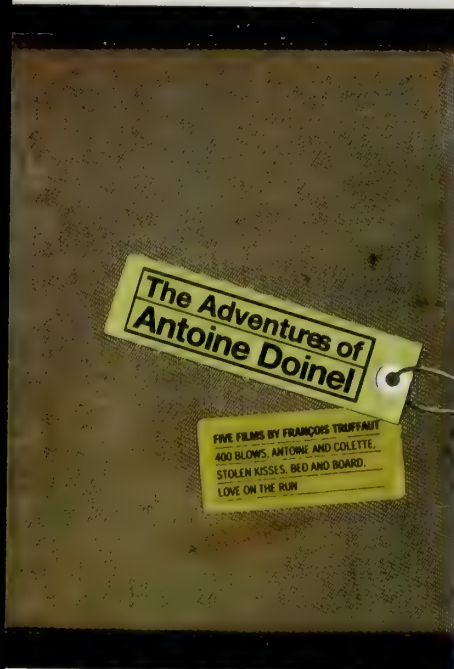
RAISING ARIZONA BROUGHT IN THE CROWDS and *Fargo* the Academy Awards, but between those films, brothers Joel and Ethan Coen made two neglected masterpieces. *Miller's Crossing* and *Barton Fink* grossed a puny \$11 million combined in U.S. theaters, but they're the jewels in the brothers' oeuvre. *Miller's Crossing* tells the story of Tom Reagan (Gabriel Byrne)

and the gangland war he sparks with his romantic and professional betrayals. *Barton Fink*, meanwhile, follows its antihero (John Turturro) through the creative hell of writer's block as he suffocates in a fleabag hotel. The latter film cleaned up at



Cannes in 1991. Both DVDs come with trailers, production stills, brief interviews (Miller's Crossing) and deleted scenes (Barton Fink). Justly rewarded with luminous digital transfers, these are the last Coen films to be released on DVD and should be neglected no longer.

—MATTHEW REED BAKER



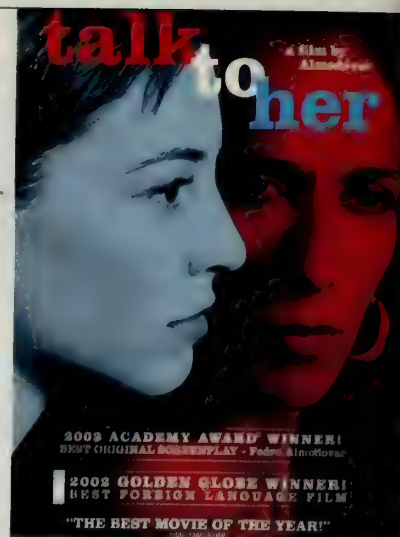
THE ADVENTURES OF ANTOINE DOINEL;
The Criterion Collection; \$100

MISCHIEF-MAKERS AND HOPELESS ROMANTICS rejoice! The Criterion Collection has just released a DVD box set of François

Truffaut's five tragicomic Antoine Doinel movies. The series begins with *The 400 Blows*, which helped launch French cinema's New Wave when it debuted in 1959. Doinel, played by Jean-Pierre Léaud, is a ne'er-do-well latchkey kid misunderstood by his parents, persecuted by his teachers and happiest when running wild through the streets of Paris. His adventures are mined from Truffaut's own checkered youth, and in classic New Wave style, his and the other characters' dialogue is almost entirely ad-libbed. That raw authenticity, coupled with Henri Decaë's magical cinematography and Jean Constantin's bittersweet score, makes this a ripshorter of a coming-of-age movie.

The subsequent films—*Antoine and Colette*, *Stolen Kisses*, *Bed and Board*, and *Love on the Run*—never achieve the magic of *The 400 Blows*, though all but the final installment are excellent in their own right. Anyway, if you see the first one, you want to know what kind of man Doinel turns out to be. The short answer: a Frenchman. But an endearing loser of a Frenchman.

The new digital transfers of these films look gorgeous, and, as usual, Criterion's extra features are wide and deep. *The 400 Blows* comes with the enchanting 1959 screen tests of Léaud and two of his child co-stars, as well as a cigarette-smoke-filled documentary about Truffaut made for French TV in 1961. The other discs have more short documentaries, interviews, newsreels and trailers from over the years, as well as a new transfer of Truffaut's first cinematic effort, *Les Mistons*. —TJ



TALK TO HER;
Columbia TriStar; \$27

THIS FILM, WHICH WON THE OSCAR FOR best screenplay this year, is Spanish director and screenwriter Pedro Almodóvar's most haunting work to date. It depicts the friendship between two men who meet at a hospital where the women they love lie comatose. Some terribly violent things happen in this otherwise humane and compassionate movie, but the genius of Almodóvar lies in what he neglects to show as much as in what he does show; the intelligence of his audience is never taken for granted. And it wouldn't be an Almodóvar film without some magic-realist flights of fancy to keep the mood upbeat. The DVD features audio commentary from the famously verbose director and reclusive actress Geraldine Chaplin, who has a small role in the film. —LORRAINE CADEMARTORI

cds



THE ESSENTIAL WILLIE NELSON,
Columbia/Legacy; \$25

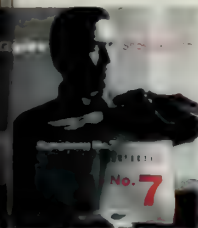


WILLIE NELSON DOESN'T LOOK HALF bad for a man who turned 70 in April. To mark the occasion, Columbia/Legacy has put out *The Essential Willie Nelson*, a double-CD greatest hits compilation that artfully chronicles his development as both a performer and a crafter of songs, from his early Nashville days to his present eminence as the great and powerful Oz of country music. Later this month, Legacy will rerelease Nelson works recorded on the Columbia and Epic labels, such as the seminal *Pancho & Lefty* and the *Honeysuckle Rose* movie soundtrack. —LC



ELECTRIC SWEAT,
The Mooney Suzuki; Columbia; \$13

NOTHING FANCY HERE. JUST TEN PERFECT garage rock anthems straight from the proto-punk '60s and early '70s. Think The Kinks and MC5 with a dash of Iggy & the Stooges. First released last year on the Gammon label, *Electric Sweat* has been such a hit that Columbia Records has snatched it up and is reissuing it. The band's lead singer, Sammy James Junior, sounds like a happier Hendrix, while guitarist Graham Tyler's fuzzed-out solo echo early Clapton. There's the requisite Hammond organ and on many tracks, the sound of hands clapping. This is exuberant head-bobbing stuff, meant to be played loudly. —TJ



**SHOSTAKOVICH SYMPHONY
NO.7, conducted
by Valery Gergiev; Philips; \$17**

RUSSIAN CONDUCTOR VALERY GERGIEV made this recording of Shostakovich's *Symphony No.7*—the composer's piece about the siege of Leningrad—in Rotterdam, Netherlands, just a few days after September 11, 2001. He did so with two symphony orchestras on the same stage: the Rotterdam Philharmonic and the Kirov Orchestra, originally of the Mariinsky Theatre in St. Petersburg. The result is an emotionally charged, dramatic performance of one of Shostakovich's most magisterial works. —TJ

**REVERIES,
Paolo Conte; Nonesuch; \$19**

PAOLO CONTE'S MUSIC DEFIES CLASSIFICATION. Although he sings primarily in his native Italian, his smoky growl echoes Tom Waits, Jacques Brel, Serge Gainsbourg and Louis Armstrong. His band plays a slush of Neapolitan folk, cabaret, tango and jazz sounds ranging from honky-tonk to Django Reinhardt to Gershwin. But somehow all these apples and oranges come together to make a hearty fruit salad; a unique sound



that's haunting yet uplifting, funny and occasionally demented. The recently released *Reveries* contains 16 classic Conte tunes, all of them brand-new re-makes. Each is beautifully arranged, featuring the quirky interplay of piano, accordion, baritone sax and kazoo. Some tunes sound like French folk ballads, others dissonant tangos. Still more are just indescribable. —TJ

**STEVE GOODMAN LIVE FROM AUSTIN CITY LIMITS...AND MORE!;
Red Pajamas Records; \$20**



ANYONE WHO DODGED THE DISCO BALL IN THE 1970S MAY REMEMBER Steve Goodman, a singer/songwriter from the opposite end of the musical spectrum who turned out folk hits for everyone from Johnny Cash to Jimmy Buffett. The late singer's best-known song, "City of New Orleans," was a blockbuster for Willie Nelson. Red Pajamas Records has just released this DVD tribute, which includes live performances of 19 songs woven together with interviews from Goodman peers from the '70s such as John Prine, Arlo Guthrie and Kris Kristofferson (who discovered Goodman on the Chicago coffee-house circuit). Purists will wonder at the omission of "Lincoln Park Pirates" but they'll be rewarded with other gems, among them "I Just Keep Falling in Love," and "You Never Call Me By My Name." Warning: Some shots of the audience may elicit stunned disbelief—it's been a long time since you've seen so many Frye boots and Fu Manchus. www.redpajamasrecords.com; (800) 521-2112. —PATRICK COOKE

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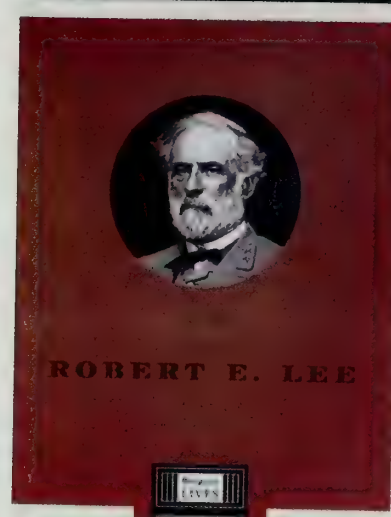
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ROBERT E. LEE,
by Roy Blount, Jr.;
Lipper/Viking; \$20

ROY BLOUNT, JR.



THIS IS THE NEWEST ENTRY IN THE Penguin Lives series, which pairs lively authors—rather than professional historians or biographers—with its subjects (Larry McMurtry writing on Crazy Horse, for example). Southern humorist Roy Blount, Jr., is certain to be one of the more eyebrow-raising choices, particularly since Robert E. Lee, despite possessing a quiet sense of the droll, was no barrel of monkeys. Blount's Lee is a man pursued by the shock and shame of his father's very public humiliations (Henry "Light Horse Harry" Lee was a Revolutionary War icon turned bankrupt and scoundrel), a man who said "The most sublime word is duty" and meant it in a nearly penitential fashion, down to refusing to sleep indoors on campaign when his soldiers slept out. Charismatic and movie-star handsome, "The Marble Model" was nevertheless a man fueled by what we can only sense—he left very little in the way of memoir—was a vivid and intense interior life. This elusive inner Lee has foiled the best efforts of multi-volume biographers, and Blount, to his credit, goes at him

hammer and tong in this short volume. Blount excuses neither Lee's ineffectual ambivalence about slavery nor his ruinous failures in offensive generalships at Gettysburg and elsewhere, but he reaches back very effectively to bring to admiring life a man whose deep values and contradictions may seem as remote to us today as George Washington's cherry tree.

—RICHARD NALLE

STOLEN FIGS:
And Other Adventures in Calabria
by Mark Rotella;
North Point Press; \$25



LIKE MANY ITALIAN-Americans, Mark Rotella has his roots in Calabria, the dry, craggy peninsula that forms the toe of Italy's boot. Or, as his Dad calls it, "the part that's

kicking the s--- out of Sicily." This gregarious travelogue, which hits stores in July, is Rotella's account of "going home" to the old country. Starting in the village his grandfather left 90 years ago, he zigzags the rugged land, eating fire-hot Calabrese chow, drinking homemade wine and above all, catching up with his long-lost compatriots. —TJ

TO CONQUER THE AIR:
The Wright Brothers and the Great Race for Flight,
by James Tobin; Free Press; \$28



THE WRIGHT BROTHERS' 1903 *Flyer* currently hangs at the Smithsonian's National Air and Space Museum in Washington, D.C. But for years the Institution's regents snorted at

the idea of displaying it. To do so would have been to acknowledge the failure of Samuel Langley, the Smithsonian's head man from 1887 to 1905, and the Wrights' chief rival in the race to build a heavier-than-air flying machine. Langley had funding from

Department of War and a support of engineers and craftsmen. He died nonetheless, or, to paraphrase a congressman of the day, his craft flew right to the bottom of the Potomac River. Meanwhile, two co-owners of a shop in Dayton, Ohio, designed and built a working plane with about \$1000 of their own money and sporadic help from friends. How about that for a mean private enterprise? In this excellent new book, James Tobin marshals all the characters who vied to build the first flying ship, including Alexander Graham Bell and Glenn Curtiss, who would go on to make millions building WWI two-seaters. But intriguingly, he focuses on Wilbur and Orville. His account of how they took to the air is inspiring and surprisingly convincing. We should all be as humble and hard-working as those two boys. —TJ



GOOD MORNING MIDNIGHT:
Life and Death in the Wild,
Chip Brown; Riverhead; \$25

ON A BRUTALLY COLD MORNING IN EARLY February 2000, five men assembled at the base of Mt. Lafayette, in New Hampshire's Franconia Ridge. Their purpose was not recreational. Scaling the mile-high west face of Mt. Lafayette, the men returned some nine hours later bearing the burden they had set out to retrieve: the body of their friend, mentor and fellow climber, Guy Waterman. Now frozen rigid as a statue, Waterman had been a fit

outdoorsman, 67 years old. That he obviously, willfully and calmly had committed suicide was, and remains, a source of bitter bewilderment to many in the mountaineering and naturalist community who admired him. His life was packed tighter than a climber's kit bag: professional pianist, congressional aide, corporate speechwriter, nature writer, part-time poet and leading authority of baseball minutiae. But it was as a climber and a bushwhacker and back-to-the-earth homesteader that Waterman gained his near-mythic reputation. In often poetic and achingly beautiful prose, Chip Brown digs deeply into the enigmatic journey of this driven man who rose above alcoholism, divorce, the deaths of two of his three sons, as well as his own warring impulses to become an icon of the American wilderness. Or did he? Like any Greek tragedy, Brown's loving account of Waterman's complex existence poses more questions than it can answer. For Guy Waterman, the very essence of both life and death was found on the side of a frozen mountain. We, like Brown, are obliged to accept this harsh reality as did Waterman himself; on his own terms. —WILL COOKE

PLAY POKER LIKE THE PROS,
by Phil Hellmuth, Jr.; Quill; \$16



IF YOUR MONEY manager hasn't already lost every bit of your disposable income, this may be the book for you. Mr. Hellmuth is the Tiger Woods of poker, having won

seven World Series Championships over the past two decades. Addressing Texas Hold 'em, Omaha and Seven-Card Stud, he shares his strategies for home, club, tournament and even online games. The glossary is particularly invaluable. It includes all sorts of words and phrases you'll need to know before you sit down to play, like "big money streets," "button," "toothpick principle," "chip and a chair" and "drawing dead." This may be this year's self-help book for dreamers.

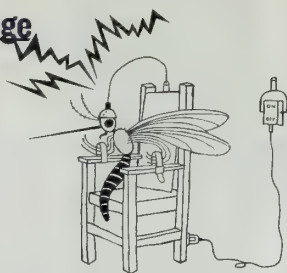
—MONIE TÁ TOITÍN UAIM



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History of the Bug Zapper

by Christopher Buckley

1506 Leonardo da Vinci invents the first bug zapper on May 3. Also on that day, he invents the first toaster oven, gyroscope, electric toothbrush, Q-Tip, cheese knish, flush toilet, ball bearing, hypodermic needle, Global Positioning System, helium, heart-lung transplant machine, Botox and the paper aeroplane. His "Device for the Immolation of Pests of the Air" is powered not by electricity, which he won't discover until May 7, but by nuclear energy, which Leonardo invented on May 2, along with fluoride, quarks, the submarine, the stop sign and pantyhose.

1552 Ivan the Terrible, the first Czar of All the Russias, is distracted by mosquitoes while torturing boyars in the Kremlin. He offers a prize—not having your head chopped off—to anyone who proposes an efficient means of eliminating the "*proklyatj vozduh d'yavol*" ("f----- devils of the air"). Oddly, no one comes forward with ideas. Ivan relents and changes the prize to life imprisonment at hard labor, but still no one voices a proposal. Furious, Ivan annexes the Tatar states of Kazan and Astrakhan. His subjects, too terrified to point out that this will accomplish little toward eradicating insects, praise him. Progress will not be made for another 350 years, when Stalin declares all mosquitoes counterrevolutionary and has them shot or sent to Siberia.

1752 Benjamin Franklin electrocutes a moth by tying it to a kite that he floats aloft into an electrical storm. He sends his friends in England a dissertation entitled "An Experiment on the Effects of Violent Lightning Bolts Upon a Specimen of Lepidoptera." His conclusion: A million volts of electricity will likely incinerate not only the moth but quite possibly the person holding the kite string. George II falls asleep while Franklin's treatise is being read to him, though this is attributed by court insiders to a surfeit of gin. A subsequent attempt to electrocute a rat by similar means fails when the rat bites Franklin and escapes.

1863 During the siege of Vicksburg, Lt. Homer Suds of the Union Army's Corps of Engineers is tasked by his commanding general with coming up with a way of "killing these swarms of goddamned bugs." Suds' method, still considered a masterpiece of battlefield improvisation, consists of honey, molasses, saltpeter and unstable nitroglycerin. It dramatically reduces the local mosquito population, but is discontinued after it blows up a lieutenant colonel and two brevet majors who mistakenly dip their spoons into it, seeking to sweeten their coffee.

1934 Düsseldorf electrician Heinrich Himmelring designs a prototype of the first truly modern bug zapper, called "*Insektverbrennungsofenmaschine*." Powered by twin hydroelectric turbines, his IBM is capable of frying one million insects simultaneously,

but fails to catch on commercially, since it causes massive brown-outs (*lampedämmerung*) throughout North Rhine-Westphalia. Himmelring offers his services to the Emperor Haile Selassie I of Ethiopia, but is frustrated when he cannot find a single electrical socket in the entire country. A treadmill powered by thousands of Somali "guest workers" not only fails to generate the required kilowattage but triggers war with Somalia. Distraught, Himmelring commits suicide by drinking tap water.

1942 Einstein writes FDR a letter in which he warns the President that "the German government is close to achieving a means of mosquito elimination utilizing blue lights and directed energy." Roosevelt orders the Office of Strategic Services to create facsimile zappers in order to deceive German agents into believing that the U.S. already possesses bug-incineration technology. The fake devices consist of boxes containing blue fluorescent light bulbs and dwarves covered with shoe polish who make "Zzzt!" sounds.

1948 Jean-Pierre Blumière is charged with the French colonial authorities in Indochina with devising a means of keeping French generals from being bitten by mosquitoes during their daily four-hour lunches. Blumière's device, consisting of bulbs imported from Paris' red-light district, is effective, but the generals complain that the smell of the roasting insects is interfering with their enjoyment of the food.

1958 The documentary movie *The Fly* portrays a Montreal scientist's obsession with creating a means of killing houseflies by electric current. His experiment backfires tragically when the scientist's molecules are fused with those of a housefly that he is trying to teleport to the United States so it can torment Americans.

1966 As the Vietnam War escalates, the U.S. Navy secretly trains dolphins to eat mosquito larvae before they can hatch in the Mekong Delta and pester U.S. troops.

1967 Stoned hippies in San Francisco's Haight-Ashbury receive painful electric shocks and blistered tongues when they lick bug zappers, mistaking them for "psychedelic" black lights. Governor Ronald Reagan announces that it serves them right.

1991 The Sharper Image company introduces the "Mother of All Bug Zappers" in its spring catalogue. Sleekly designed to look like a cross between the bomb dropped on Hiroshima and a flat-screen TV, MABZ boasts patented nonclogging vertical killing grids and uses spent plutonium and argon gas, causing bugs to glow iridescently in up to 20 colors before succumbing painfully to radiation poisoning. Each time an insect drops to the ground, MABZ emits a tape-recorded squeal, "Help meeeeee!" •



